

ULTRAPETROL BAHAMAS LTD  
Form 424B1  
April 20, 2007  
As Filed Pursuant to Rule 424(b)(1)  
Registration No.: 333-141485

PROSPECTUS

April 19, 2007

11,000,000 Shares

We are offering 5,096,078 shares of our common stock in this offering, and the selling shareholders identified in this prospectus are offering 5,903,922 shares of our common stock. We will not receive any of the proceeds from any shares of common stock sold by the selling shareholders.

Our common stock is listed on The Nasdaq Global Market under the symbol "ULTR." On April 19, 2007, the closing price of our common stock on the Nasdaq Global Market was \$19.62 per share.

Investing in our common stock involves a high degree of risk. Before buying any shares, you should carefully read the discussion of material risks of investing in our common stock in "Risk factors" beginning on page 13 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price	\$19.00	\$209,000,000
Underwriting discounts and commissions	\$0.95	\$10,450,000
Proceeds, before expenses, to us	\$18.05	\$91,984,208
Proceeds, before expenses, to the selling shareholders	\$18.05	\$106,565,792

The underwriters may purchase from one of our selling shareholders an additional 1,650,000 shares of our common stock at the public offering price, less the underwriting discounts and commissions, to cover over-allotments, if any, within 30 days from the date of this prospectus. If the underwriters exercise this option in full, the total underwriting discount and commissions will be \$12,017,500 and the total proceeds to the selling shareholders, before expenses, will be \$136,348,292.

The underwriters are offering the common stock as set forth under "Underwriting." Delivery of the shares will be made on or about April 25, 2007.

UBS Investment Bank

Bear, Stearns & Co. Inc.

Jefferies &amp; Company

Raymond James DVB Capital Markets

You should rely only on the information contained in this prospectus or to which we have referred you. We have not, and the underwriters have not authorized anyone to provide you with additional or different information. We are not, and the underwriters are not offering to sell these securities in any jurisdiction where the offer or sale is not permitted. The information in this prospectus may only be accurate on the date of this prospectus regardless of the time of delivery of this prospectus or of any sale of shares of our common stock.

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### Enforceability of civil liabilities

We are a Bahamian corporation. Our subsidiaries are incorporated in Argentina, The Bahamas, Brazil, Chile, Colombia, Liberia, Mexico, Panama, Paraguay, Spain, the United Kingdom, the United States of America, Uruguay and Venezuela. All of our vessels and barges are flagged in Argentina, Bolivia, Brazil, Chile, Liberia, Panama or Paraguay. Most of our and our subsidiaries' offices, administrative activities and other assets, as well as those of the independent registered public accountants and the expert named herein, are located outside the United States. In addition, some of our directors and officers, and the directors and officers of our subsidiaries, are residents of jurisdictions other than the United States, and all or a substantial portion of the assets of such persons are or may be located outside the United States. As a result, it may be difficult for you to effect service of process within the United States upon us or our subsidiaries or such persons, and it may be difficult for you to enforce judgments obtained in United States courts against us or our subsidiaries, our directors and officers, the directors and officers of our subsidiaries, the independent registered public accountants or the expert named herein, or the assets of any such parties located outside the United States. Further, it may be difficult for you to enforce judgments obtained in United States courts, including those predicated upon the civil liability provision of the federal securities laws of the United States, against such parties in courts outside of the United States.

### Industry

The discussions relating to the international shipping industry contained under the sections of this prospectus entitled "Summary," "The international shipping industry" and "Business" have been reviewed by Doll Shipping Consultancy, or DSC, which has confirmed to us that the discussion contained in those sections accurately describes the international shipping markets subject to the reliability of the data supporting the statistical and graphical information present in this prospectus.

DSC is an independent company based in the United Kingdom that provides market analysis and strategic planning services to the shipping industry, and has provided us with statistical and other data regarding the shipping industry and the particular markets in which we operate. You can find these data in this prospectus in, among other locations, the section entitled "The international shipping industry." DSC has advised us that these data are drawn from published and private industry sources. DSC has also advised us that:

some industry data they provided are based upon estimates or subjective judgments in circumstances where data for actual market transactions either do not exist or are not publicly available;

the published information of other maritime data collection experts may differ from the data provided to us by DSC; and

while DSC has taken reasonable care in the compilation of the data it has provided to us and believes such data to be accurate, data collection is subject to limited audit and validation procedures.

Neither we nor any of our affiliates have independently verified the information supplied to us by DSC and neither we nor any of our affiliates make any representations regarding its accuracy.

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## ULTRAPETROL (BAHAMAS) LIMITED SUMMARY ORGANIZATIONAL CHART

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Our partner in Brazil, Comintra Enterprises Ltd., or Comintra, owns 5.55% of UP Offshore (Bahamas) Ltd.

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### Summary

This summary highlights selected information in this prospectus. It may not contain all the information that may be important to you. You should review carefully the risk factors and the more detailed information and financial statements contained elsewhere in this prospectus, for a more complete understanding of our business and this offering. In this prospectus, unless the context otherwise indicates, the terms “we,” “us” and “our” (and similar terms) refer to Ultrapetrol (Bahamas) Limited and its subsidiaries. Unless otherwise indicated, all references to currency amounts in this prospectus are in U.S. Dollars. See the “Glossary of shipping terms” included in this prospectus for definitions of certain terms used in this prospectus that are commonly used in the shipping industry.

### OUR COMPANY

We are an industrial transportation company serving the marine transportation needs of our clients in the markets on which we focus. We serve the shipping markets for grain, minerals, crude oil, petroleum, refined petroleum products and forest products, as well as the offshore oil platform supply market, and the leisure passenger cruise market through our operations in the following four segments of the marine transportation industry.

Our River Business, with 502 barges, is the largest owner and operator of river barges and pushboats that transport dry bulk and liquid cargos through the Hidrovia Region of South America, a large area with growing agricultural, forest and mineral related exports. This region is crossed by navigable rivers that flow through Argentina, Bolivia, Brazil, Paraguay and Uruguay to ports serviced by ocean export vessels.

Our Offshore Supply Business owns and operates vessels that provide critical logistical and transportation services for offshore petroleum exploration and production companies, in the North Sea and the coastal waters of Brazil. Our Offshore Supply Business fleet currently consists of proprietary designed, technologically advanced platform supply vessels, or PSVs. We have four PSVs in operation and four under construction. Two PSVs are under construction in Brazil and are contracted to be delivered in the second quarter of 2007 and in 2008, respectively. We recently contracted with a shipyard in India to construct two PSVs for delivery commencing in 2009, with an option to build two more.

Our Ocean Business owns and operates eight oceangoing vessels, including three Handysize/small product tankers which we intend to use in the South American coastal trade where we have preferential rights and customer relationships, three versatile Suezmax Oil-Bulk-Ore, or Suezmax OBO, vessels, one Aframax tanker and one semi-integrated tug/barge unit. Our Ocean Business fleet has an aggregate carrying capacity of approximately 651,000 deadweight tons, or dwt, and our three Suezmax OBOs are capable of carrying either dry bulk or liquid cargos, providing flexibility as dynamics change between these market sectors.

Our Passenger Business fleet consists of two vessels with a total carrying capacity of approximately 1,600 passengers, and operates primarily in the European cruise market. We currently employ our largest passenger vessel under a multi-year seasonal charter with a European tour operator and the other passenger vessel in the Aegean Sea for the European summer season of 2007. In addition, we have operated one of our vessels during periods outside the European travel season for certain events.

We have a diverse customer base including large and well-known petroleum, agricultural, mining and tour operating companies. Some of our significant customers over the last three years include affiliates of Archer Daniels Midland, British Gas, Cargill, Chevron, Continental Grain, Empresa Nacional de Petroleo (ENAP), the national oil company of Chile, Industrias Oleaginosas, Panocean, Petrobras, the national oil company of Brazil, Petropar, the national oil company of Paraguay, Rio Tinto, Swissmarine, Total, Trafigura, Travelplan, and Vicentin.

We are focused on growing our businesses while maintaining the versatility of our fleet and the diversity of industries that we serve. We believe maintaining this versatility and diversity will maximize our ability to pursue new growth opportunities and minimize our dependence on any particular sector of the marine transportation industry.

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## OUR COMPETITIVE STRENGTHS

We believe that the following strengths have contributed to our success.

**Multiple Growth Opportunities.** We believe that we have successfully identified a series of growth opportunities in the marine transportation industry and have built businesses with competitive advantages that have grown rapidly by meeting the needs of a range of multinational customers.

**Diversification.** We believe that our diversification across multiple segments of the marine transportation industry provides significant protection against business cycles in any particular segment.

**Large Scale Generates Efficiencies.** We are the largest provider of river transportation services in the Hidrovia Region, which gives us economies of scale and increased negotiating power. Our size has enabled us, alone among our competitors in the Hidrovia Region, to implement an operational system through which we provide our customers with a continuous stream of available barges while reducing our operating costs on a per ton basis.

**Advanced Technology.** Our PSVs have advanced dynamic positioning systems and benefit from our proprietary design that includes oil recovery capabilities in most of our PSVs, azimuth thrusters, and greater cargo capacity and deck space than most PSVs of standard design. These capabilities enable us to better serve clients operating in challenging offshore environments. Our River Business uses a navigational system that allows around-the-clock operation on a river system that lacks the signals otherwise necessary for night navigation.

**Versatile Ocean Fleet.** We can readily switch our Suezmax OBOs between dry bulk and liquid cargo carriage to take advantage of rate differentials in these markets. Further, because of her narrow beam, our Aframax tanker is able, despite her large Aframax dwt, to transit the Panama Canal. Our Handysize/small product tankers can transport a variety of different cargos, from heated crudes to multiple light products such as gasoline and jet fuel.

**Long-Term Customer Relationships.** We have long-standing relationships with large, stable customers, including affiliates of major international oil and agriculture companies, including Petrobras and Cargill, which have been our customers for 13 years and nine years, respectively, as well as Archer Daniels Midland, Continental Grain and ENAP.

**High Standards of Performance and Safety.** The quality of our vessels and the expertise of our vessel managers, crews and engineering resources help us maintain safe, reliable and consistent performance.

**Established History and Experienced Management Team.** Our management team is led by members of the Menendez family, which has been in the shipping industry since 1876. Our senior executive officers have on average 35 years of experience in the shipping industry.

**Preferential Treatment in Certain Markets.** Certain countries provide preferential treatment for vessels that are flagged in their jurisdiction or chartered in for operation by local ship operators. Brazilian law provides a preference for the utilization of Brazilian-flagged vessels in its cabotage trade. Through one of our Brazilian subsidiaries, we have the competitive advantage of being able to trade most of our PSVs in the Brazilian cabotage market, enabling them to obtain employment in preference to vessels without those cabotage privileges. In addition, certain of our ocean vessels enjoy special privileges in Argentina and Chile.

## OUR BUSINESS STRATEGY

Our business strategy is to continue to operate as a diversified marine transportation company with an aim to maximize our growth and profitability while limiting our exposure to the cyclical behavior of individual sectors of the marine transportation industry. We plan to implement our business strategy by pursuing the following objectives.

**Capitalizing on Attractive Fundamentals in Our River Business.** We plan to use our leading market position in the Hidrovia Region to grow our River Business by capitalizing on the region's growing agricultural, iron ore and other commodity exports, the cost effectiveness of river transport compared to available alternatives and our proprietary transportation infrastructure. We plan to increase the size and capacity of many of our existing barges and invest in river infrastructure in order to take advantage of this opportunity. We may also seek to add capacity by acquiring assets or companies currently operating in the Hidrovia Region.

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**Expansion of Our Barge Construction Capability.** We intend to use a portion of the proceeds of the offering to expand the capacity of our shipyard in the Hidrovia Region to facilitate the building of new barges, enabling us to design and construct barges that are best suited for the characteristics of our River Business. Certain new mining concerns have announced plans to produce and ship through the river system significant additional volumes of iron ore. This presents the challenge of creating significant new capacity in a cost-effective manner. We believe that having our own barge producing capability will enable us to meet this challenge at lower cost than purchasing the barges overseas and transporting them to South America.

**Expanding Our Offshore Supply Business.** We have taken delivery of four proprietarily designed PSVs for our Offshore Supply Business and have four more PSVs under construction, with an option for another two PSVs, which, if exercised, would give us a total fleet of ten vessels.

**Growing Our Ocean Fleet.** We plan on incorporating additional chemical/product tankers into our ocean fleet. We believe that these ships will fill a demand from our existing customers for vessels to service routes where both the point of origin and destination are in South America. In addition, we are studying alternative, efficient ways of expanding our ocean fleet in the current market, in which vessels generally sell at a premium by modifying or converting existing tonnage.

**Redeploying Vessels to the Most Attractive Markets.** Under appropriate market conditions, we intend to take advantage of the versatility of some of our vessels and to alter the geographic and industry focus of our operations by redeploying vessels to the most profitable markets. In addition, we actively manage the deployment of our fleet between longer-term and shorter-term time charters.

**Expanding Our Passenger Fleet.** We intend to further expand our Passenger Business through timely and selective acquisitions of secondhand passenger vessels in accordance with identified customer needs and to increase revenue by also employing our vessels outside of the European travel season.

**Generating Operational Efficiencies.** We have identified opportunities and are implementing our plans to improve overall efficiency and profitability. For example, in our River Business, we plan to increase the size and capacity of many of our existing barges and invest in new engines that burn less expensive fuel for our line pushboats, which we use on our longer river voyages. We will also continue to focus on optimizing our barge and tug scheduling, maximizing loads and convoy size and minimizing empty return voyages.

## CHARTERING STRATEGY AND FLEET MANAGEMENT

We continually monitor developments in the shipping industry and make charter-related decisions on an individual vessel and segment basis as well as our view of overall market conditions.

We conduct the day-to-day management and administration of our operations in-house and through our subsidiaries. Our subsidiary, Ravenscroft, provides technical ship management for the vessels in our Offshore Supply, Ocean and Passenger Businesses while our subsidiary, UABL Limited, or UABL, manages our River Business. In addition to servicing our own vessels, Ravenscroft also manages vessels owned by third parties.

## IMPORTANT DEVELOPMENTS AND CURRENT INITIATIVES

We believe the following developments and initiatives will have a significant impact on the operations of our various businesses.

### River Business

**New vessels.** On March 7, 2007, we acquired ownership of Candies Paraguayan Ventures LLC and Compania Paraguaya de Transporte Fluvial S.A., existing competitors in our river system, or the Otto Candies Acquisition, adding to our fleet one 4,500 HP shallow drafted pushboat and twelve Jumbo 2,500 dwt barges, all of which were built in the United States in 1995.

**Expansion and fuel efficiency initiatives.** We have begun a three year program to expand the size of approximately 130 of our barges. To date, we have expanded 12 barges, and we expect to have a total of 62 expanded by the end of 2007. We are also working on a four year program to replace the diesel engines in 16 of our line pushboats with new engines that will burn less expensive heavy fuel oil. We have to date contracted to purchase six of these new engines from MAN Diesel with expected delivery dates in July and November of 2007.

**Expansion of our barge construction capability.** We plan to expand the capacity of our shipyard in the Hidrovia Region and adequately equip it to build new barges and grow our fleet in order to meet our expected future



incremental demand in a cost effective manner. We expect that the most significant impact from these programs on our operations will occur after 2007.

#### Offshore Supply Business

Acquisition of additional 66.67% interest. On March 21, 2006, we acquired an additional 66.67% of UP Offshore, which is the holding company for our Offshore Supply Business, raising our ownership to 94.45%. Prior to this transaction, we used the equity method of accounting for our investment in UP Offshore. Since the date of the transaction, we consolidate UP Offshore into our financial results.

New vessels. Our 2006 operating results reflect the partial year operations of two newly built PSVs, one that we received and placed into service in March 2006, and one that we received in August 2006 and placed into service in September 2006. We expect to take delivery of two more sister vessels currently under construction in Brazil in the second quarter of 2007 and in 2008, respectively. In addition, we have recently signed contracts with a shipyard in India for the construction of two additional vessels to be delivered in 2009, with an option to build two more.

#### Ocean Business

Vessel acquisitions and dispositions in our Ocean Business. On October 23, 2006, we purchased our Amadeo, a 39,350 mt dwt crude and product carrier. Upon delivery in December 2006, we sent this vessel to a Romanian shipyard where we have contracted for retro-fitting to double hull. We expect this vessel to commence service in South America in the second quarter of 2007. On January 5, 2007 we took delivery of our new acquisition, Alejandrina, a 9,200 metric tons dwt 2006 built double hull product carrier which will commence service in South America in late March 2007.

#### Passenger Business

Vessel deployment in our Passenger Business. We completed a refurbishment of all passenger accommodations on the New Flamenco in February 2006 and she has secured employment at increased rates for the European summer season of 2007 with an option for the 2008 summer season. We have entered into an agreement with Monarch Classic Cruises for the Grand Victoria (to be renamed Blue Monarch) to participate in their program in the Aegean Sea during the European summer season of 2007.

#### OUR CORPORATE HISTORY

We were originally formed by members of the Menendez family with a single oceangoing vessel in 1992, and were incorporated in our current form as a Bahamas corporation on December 23, 1997.

Our Ocean Business has grown through the investment of capital from the operation of our fleet along with other sources of capital to acquire additional vessels. In 1998, we issued \$135.0 million of 10½% First Preferred Ship Mortgage Notes due 2008, or the Prior Notes. By 2001, our fleet reached 13 oceangoing vessels with a total carrying capacity of 1.1 million dwt. During 2003, in an effort to remain ahead of changing environmental protection regulations, we began to sell all of our single hull Panamax and Aframax tankers (five vessels in total), a process that

we completed in early 2004.

We began our River Business in 1993 with a fleet consisting of one pushboat and four barges. In October 2000, we formed a joint venture with American Commercial Barge Lines Ltd., or ACL. From 2000 to 2004, we built UABL into the leading river barge company in the Hidrovia Region of South America. Using some of the proceeds from the sale of our single hull Panamax tankers, in 2004, we purchased from ACL their 50% equity interest in UABL.

During 2000, we received a \$50.0 million equity investment from an affiliate of Solimar Holdings, Ltd., or Solimar, a wholly-owned subsidiary of the AIG-GE Capital Latin American Infrastructure Fund L.P., or the Fund. The Fund was established at the end of 1996 to make equity investments in Latin America and the Caribbean countries. The Fund has also been our partner in other ventures, including UP Offshore.

In December 2002, we began our relationship with International Finance Corporation, or IFC, which is the private sector arm of the World Bank Group that provides loans, equity, and other services to support the

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private sector in developing countries. In total, IFC, together with its participant banks and co-lender, KfW, has provided us with \$115.0 million of credit and equity commitments to support our River and Offshore Supply Businesses.

We formed our Offshore Supply Business during 2003 in a joint venture with a wholly-owned subsidiary of the Fund and Comintra. We capitalized the business with \$45.0 million of common equity and \$70.0 million of debt and preferred equity from IFC to construct our initial fleet of six PSVs. On March 21, 2006, we purchased 66.67% of the issued and outstanding capital stock of UP Offshore (Bahamas) Ltd., or UP Offshore, a company through which we operate our Offshore Supply Business from an affiliate of Solimar, one of the selling shareholders, for a purchase price of \$48.0 million. Following this acquisition, we hold 94.45% of the issued and outstanding shares of UP Offshore.

In November 2004, we issued \$180.0 million of 9% First Preferred Ship Mortgage Notes due 2014, or the Notes. The proceeds of the Notes offering were used principally to prepay the Prior Notes and to buy an additional Ocean Business asset, further invest in our River Business, and to diversify into the Passenger Business with the acquisition of two passenger vessels.

In October 2006, we completed our initial public offering (our “IPO”) of 12.5 million shares of our common stock, which generated gross proceeds of \$137.5 million. On November 10, 2006, the Underwriters of our IPO exercised their over-allotment option to purchase from the selling shareholders in our IPO an additional 232,712 shares of our common stock. We did not receive any of the proceeds from the sale of shares by these shareholders in the over-allotment option.

## CORPORATE INFORMATION

We are incorporated in the Commonwealth of The Bahamas under the name Ultrapetrol (Bahamas) Limited. Our principal offices in The Bahamas are located at Ocean Centre, Montagu Foreshore, East Bay St., P.O. Box SS-19084, Nassau, Bahamas. Our telephone number there is 1 (242) 364-4755.

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## THE OFFERING

Common stock offered by us

5,096,078 shares.

Common stock offered by the selling shareholders

5,903,922 shares.

Underwriters' over-allotment option

1,650,000 shares from one of our selling shareholders.

Common stock to be outstanding immediately after this offering

33,443,030 shares.

Use of proceeds

We expect to use the net proceeds of this offering as follows:

\$13.8 million to replace cash on hand used to fund the Otto Candies Acquisition, including related expenses;

\$43.3 million to fund construction costs of the two new PSVs being built in India, including \$8.7 million to replenish cash on hand used to fund the first advance under the construction contracts and \$34.6 million to be held as working capital to fund the balance of the construction costs;

\$12.0 million to fund the expansion of the capacity of our shipyard in the Hidrovia Region for construction of new barges; and

the remainder for general corporate purposes.

We will not receive any of the proceeds from any sale of our common stock by the selling shareholders. See “Use of proceeds.”

#### Dividend policy

We anticipate retaining most of our future earnings, if any, for use in our operations and the expansion of our business. Any determination as to dividend policy will be made by our board of directors and will depend on a number of factors, including the requirements of Bahamian law, our future earnings, capital requirements, financial condition and future prospects, restrictions imposed by the terms of our indebtedness, and such other factors as our board of directors may deem relevant. See “Dividend policy.”

#### Nasdaq Global Market listing

Our common stock is listed on The Nasdaq Global Market under the symbol “ULTR.”

#### Special Voting Rights

Under our Amended and Restated Memorandum of Association, the selling shareholders are expressly entitled to seven votes per share on all shares held directly by them and all other holders of shares of our common stock are entitled to one vote per share. The special voting rights of the selling shareholders are transferable to each other but are not transferable to any other shareholders, and apply only to shares held by them on October 12, 2006, and not to any shares they subsequently purchase or repurchase. Our Amended and Restated Memorandum of Association also provides certain protections for our shareholders that do not have these

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special voting rights including certain tag-along rights. After giving effect to this offering, the selling shareholders will have 73.1% of the voting power of our common stock. Please see “Description of capital stock” elsewhere in this prospectus.

Unless we indicate otherwise or the context otherwise requires, all information in this prospectus:

assumes that the underwriters do not exercise their over-allotment option;

does not give effect to the warrant in favor of Solimar representing 146,384 shares of our common stock.

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#### Risk factors

Investing in our common stock involves substantial risks. We summarize some of these risks below.

Some of the sectors of the shipping industry in which we operate are cyclical and volatile. Some of our businesses operate in highly volatile and cyclical markets characterized by large fluctuations in demand and charter rates. If these businesses suffer from adverse market conditions, our results of operations will be adversely affected.

Our River Business can be affected by adverse weather conditions that reduce production of the goods we transport or navigability of the river system on which we operate. Droughts and other adverse weather conditions, such as floods, have in the past and could in the future result in a decline in production of the agricultural products we transport. Further, certain conditions, such as low water levels, could reduce or limit our ability to effectively transport cargo on the rivers.

Our vessels are at risk of being damaged due to operational risks that may lead to unexpected consequences, which may adversely affect our earnings. Our vessels and their cargos are at risk of being damaged or lost because of events we cannot control, such as marine disasters, bad weather, mechanical failures, human error, war, terrorism, piracy and other circumstances or events. Although we insure our vessels against those types of risks commonly insured against by vessel owners and operators, we may not be adequately insured against all risks.

We are an international company that is exposed to the risks of doing business in many different and often less developed emerging market countries. We conduct almost all of our operations outside of the United States, including in countries that are less developed, such as Argentina, Bolivia, Brazil, Chile, China, Paraguay, South Africa and Uruguay. By operating in these countries, we are subject to numerous risks, including political and economic instability, unfavorable legal, regulatory and tax changes, and others.

Certain of our existing shareholders control the outcome of matters on which our shareholders are entitled to vote following this offering. Certain of our existing shareholders control a majority of the voting power of our common stock after this offering, in part because shares of common stock held by them prior to October 12, 2006, have seven votes and shares of common stock held by others have one vote. In cases where their interests differ from yours, they will have the ability to control the management of our company.

The price of our common stock has been volatile and after this offering may continue to be volatile. The market price of our common stock has historically fluctuated over a wide range and may continue to fluctuate significantly. You may encounter difficulties in trying to sell your shares of our common stock in the future.

This is not a comprehensive list of risks to which we are subject, and you should carefully consider all the information in this prospectus prior to investing in our common stock. In particular, we urge you to consider carefully the additional factors set forth in the section of this prospectus entitled “Risk factors” beginning on page 13.

## Summary consolidated financial data

The following table sets forth our summary consolidated financial information and other operating data. You should carefully read our audited consolidated financial statements, and the information set forth under “Management’s discussion and analysis of financial condition and results of operations” included elsewhere in this prospectus for additional financial information about us. We derived our summary consolidated statement of income data for the fiscal years ended December 31, 2004, 2005 and 2006, and our summary consolidated balance sheet data as of December 31, 2005 and 2006, from our audited consolidated financial statements included elsewhere in this prospectus. We derived our summary consolidated balance sheet data as of December 31, 2004 from our audited consolidated statements not included in this prospectus. We refer you to the footnotes to our consolidated financial statements for a discussion of the basis on which our consolidated financial statements are presented.

	Year ended December 31,		
	2004 <sup>(1)</sup>	2005	2006 <sup>(2)</sup>
	(Dollars in thousands)		
Statement of Income Data:			
Revenues	\$95,160	\$125,361	\$173,466
Operating expenses <sup>(3)</sup>	(40,815 )	(73,061 )	(97,610 )
Depreciation and amortization	(18,688 )	(21,333 )	(28,340 )
Management fees to related parties <sup>(4)</sup>	(1,513 )	(2,118 )	(511 )
Administrative and commercial expenses	(7,494 )	(7,617 )	(13,905 )
Other operating income (expenses) <sup>(5)</sup>	784	22,021	(198 )
Operating profit	27,434	43,253	32,902
Financial expense	(16,134 )	(19,141 )	(19,025 )
Financial gain (loss) on extinguishment of debt <sup>(6)</sup>	(5,078 )	—	(1,411 )
Financial income	119	1,152	733
Investment in affiliates <sup>(7)</sup>	406	(497 )	588
Other income (expenses)	174	384	859
Income before income tax and minority interest	6,921	25,151	14,646
Income taxes	(642 )	(786 )	(2,201 )
Minority interest <sup>(8)</sup>	(1,140 )	(9,797 )	(1,919 )
Net income	\$5,139	\$14,568	\$10,526
Basic net income per share	\$0.33	\$0.94	\$0.59
Diluted net income per share	\$0.33	\$0.94	\$0.58
Basic weighted average number of shares	15,500,000	15,500,000	17,965,753
Diluted weighted average number of shares	15,500,000	15,500,000	18,079,091
Balance Sheet Data (end of period):			
Cash and cash equivalents	\$11,602	\$7,914	\$20,648
Current restricted cash	2,975	3,638	—
Working capital <sup>(9)</sup>	13,441	26,723	31,999
Vessels and equipment, net	160,535	182,069	333,191
Total assets	273,648	278,282	426,379
Total debt	220,413	211,275	220,685
Shareholders' equity	28,910	43,474	179,429
Other Financial Data:			
Net cash provided by operating activities	\$23,129	\$16,671	\$28,801

	Year ended December 31,		
	2004 <sup>(1)</sup>	2005	2006 <sup>(2)</sup>
	(Dollars in thousands)		
Net cash used in investing activities	(57,556 )	(26,725 )	(104,029 )
Net cash provided by financing activities	37,781	6,366	87,962
EBITDA <sup>(10)(11)</sup>	45,681	55,828	62,417
Selected Fleet Data (end of period):			
River Business			
Dry barges	411	446	446
Tank barges	44	44	44
Total barges	455	490	490
Total barge capacity (approximate dwt)	744,000	798,000	798,000
Number of pushboats	21	23	23
Offshore Supply Business			
Large PSVs	—	—	(12) 4
Ocean Business			
Total ocean vessels	6	6	7
Total ocean vessel capacity (approximate dwt)	747,000	602,000	643,000
Passenger Business			
Passenger vessels	—	2	2
Total passenger berths	—	1,585	1,585

(1)

In a series of related transactions, on April 23, 2004, through two wholly-owned subsidiaries, we acquired from American Commercial Barge Lines Ltd., or ACBL, the remaining 50% equity interest in UABL Limited, or UABL, that we did not previously own, along with a fleet of 50 river barges and seven river pushboats. The results of UABL's operations have been included in our consolidated financial statements since that date.

(2)

On March 21, 2006 we acquired an additional 66.67% of UP Offshore, which is the holding company for our Offshore Supply Business, raising our ownership to 94.45%. The results of UP Offshore's operations have been included in our consolidated financial statements since that date.

(3)

Operating expenses are voyage expenses and running costs. Voyage expenses, which are incurred when a vessel is operating under a contract of affreightment (as well as any time when they are not operating under time or bareboat charter), comprise all costs relating to a given voyage, including port charges, canal dues and fuel (bunkers) costs, are paid by the vessel owner and are recorded as voyage expenses. Voyage expenses also include charter hire payments made by us to owners of vessels that we have chartered in. Running costs, or vessel operating expenses, include the cost of all vessel management, crewing, repairs and maintenance, spares and stores, insurance premiums and lubricants and certain drydocking costs.

(4)

Management fees to related parties included payments to our related companies Ravenscroft Shipping (Bahamas) S.A., or Ravenscroft, and Oceanmarine S.A., or Oceanmarine, for ship management and administration services that

they provide to us. We purchased the business of Ravenscroft and hired the administrative personnel and purchased the administrative related assets of Oceanmarine on March 21, 2006; accordingly, ship management and administration costs appear as in-house expenses in our results from that date.

(5)

Other operating income in 2005 includes \$21.8 million gain from the sale of our Capesize bulk carrier, the Cape Pampas. This vessel was owned directly by Ultracape (Holdings) Ltd., or Ultracape, a company of which we owned 60%. Accordingly, the gain on sale attributable to the remaining 40% that we did not own is deducted from income as minority interest.

(6)

During 2004, we repurchased \$5.7 million principal amount of our Prior Notes for a price of \$4.3 million and realized a gain of \$1.3 million, and we incurred \$6.4 million in expenses in relation to our tender offer and repurchase of our Prior Notes. During 2006, there was an early redemption of our indebtedness in our River Business and we incurred a loss of \$1.4 million related to the unamortized balance of issuance costs.

(7)

Prior to April 2004, we owned 50% of UABL through a joint venture with ACBL and, accordingly, we accounted for it using the equity method. Also, prior to March 2006, we owned 27.78% of UP Offshore (Bahamas) Ltd. and, accordingly, we accounted for it using the equity method.

(8)

We own 60% of Ultracape, which owned the Capesize bulk carrier Cape Pampas prior to its sale in May 2005, and accordingly we recognized minority interest for the 40% we did not own. Figures in 2004 principally represent 40% of the income earned by Ultracape, from operation of the Cape Pampas. The figure in 2005 represents 40% of the income from operations of the Cape Pampas

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as well as 40% of the gain on the sale of the vessel in May 2005. Minority interest in 2006 includes a loss of \$0.9 million incurred through redemption of the preferred shares issued by our subsidiary UP Offshore owned by IFC, which was part of the use of proceeds from our IPO.

(9)

Current assets less current liabilities.

(10)

EBITDA consists of net income (loss) prior to deductions for interest expense and other financial gains and losses, income taxes, depreciation of vessels and equipment and amortization of drydock expense, intangible assets, financial gain (loss) on extinguishment of debt and a premium paid for redemption of preferred shares. We have provided EBITDA in this report because we use it to, and believe it provides useful information to investors to, measure our performance and evaluate our ability to incur and service indebtedness. We also use EBITDA to assess the



performance of our business units. We believe that EBITDA is intended to exclude all items that affect results relating to financing activities. The gain and losses associated with extinguishment of debt, including preferred shares issued for our subsidiaries, are a direct financing item that affects our results, and as such we exclude these items in our calculation of EBITDA. We do not intend for EBITDA to represent cash flows from operations, as defined by GAAP (on the date of calculation) and it should not be considered as an alternative to net income as an indicator of our operating performance or to cash flows from operations as a measure of liquidity. This definition of EBITDA may not be comparable to similarly titled measures disclosed by other companies. Generally, funds represented by EBITDA are available for management's discretionary use.

The following table reconciles our EBITDA to our net income:

	Year ended December 31,		
	2004	2005	2006
	(Dollars in thousands)		
Net income	\$5,139	\$14,568	\$10,526
Plus			
Financial expense	16,134	19,141	19,025
Financial gain on extinguishment of debts	(1,344 )	—	—
Financial losses on extinguishment of debts	6,422	—	1,411 (a)
Income taxes	642	786	2,201
Depreciation and amortization	18,688	21,333	28,340
Premium paid for redemption of preferred shares <sup>(b)</sup>	—	—	914
EBITDA	\$45,681	\$55,828 <sup>(c)</sup>	\$62,417

(a) Corresponds to the loss incurred in the fourth quarter of 2006 through the early repayment of the loans granted by IFC to UABL, which was part of the use of proceeds from our IPO.

(b) See note 8 to our Summary consolidated financial data above.

EBITDA for 2005 includes \$13.1 million, net of minority interest from the gain on the sale of Cape Pampas in

(c) May 2005. See "Management discussion and analysis of financial condition and results of operations-Developments in 2005."

The following table reconciles our EBITDA to our operating profit for each of our business segments:

	Year Ended December 31, 2006				
	(Dollars in thousands)				
	River Business	Offshore Supply Business	Ocean Business	Passenger Business	Total
Segment operating profit	\$10,755	\$11,480	\$5,566	\$ 5,101	\$32,902
Depreciation and amortization	8,136	2,340	14,238	3,626	28,340
Minority interest	(285 )	(1,409 )	(225 )	—	(1,919 )
(Loss) income from investment in affiliates	(124 )	328	384	—	588

Other, net <sup>(a)</sup>	—	67	792	—	859
Premium paid for redemption of preferred shares <sup>(b)</sup>	—	914	—	—	914
Segment EBITDA	\$18,482	\$13,720	\$20,755	\$ 8,727	\$61,684
Items not included in segment EBITDA					
Financial income					\$733
Consolidated EBITDA <sup>(c)</sup>					\$62,417

(a) Individually not significant.

(b) Corresponds to a loss of \$0.9 million incurred through redemption of the preferred shares owned by IFC issued by our subsidiary UP Offshore, which was part of the use of proceeds of our IPO.

(c) The reconciliation of our consolidated EBITDA to our net income is set forth in note 10 above.

	Year Ended December 31, 2005 (Dollars in thousands)				
	River Business	Offshore Supply Business	Ocean Business	Passenger Business	Total
Segment operating profit	\$366	\$ 183	\$39,289 <sup>(a)</sup>	\$ 3,415	\$43,253
Depreciation and amortization	7,166	—	13,063	1,104	21,333
Minority interest	(386 )	—	(9,411 ) <sup>(a)</sup>	—	(9,797 )
(Loss) income from investment in affiliates	(306 )	(12 )	(179 )	—	(497 )
Other, net <sup>(b)</sup>	—	—	384	—	384
Segment EBITDA	\$6,840	\$ 171	\$43,146	\$ 4,519	\$54,676
Items not included in segment EBITDA					
Financial income					\$1,152
Consolidated EBITDA <sup>(c)</sup>					\$55,828

(a) For our Ocean Business, segment operating profit includes a \$21.8 million gain on the sale of the Cape Pampas, and minority interest includes a deduction related to that sale as well as the operating income from the vessel prior to its sale. See notes 5 and 8 above.

(b) Individually not significant.

(c) The reconciliation of our consolidated EBITDA to our net income is set forth in note 10 above.

(12)

During 2005, UP Offshore owned two PSVs. Because we owned only 27.78% of UP Offshore's equity interest at year's end, we do not show these vessels as being part of our fleet. We do recognize the revenue from these vessels in our consolidated statement of income because we operated them under a bareboat charter from UP Offshore. This revenue was substantially offset by related operating expenses and charterhire.

Any investment in our common stock involves a high degree of risk. You should consider carefully the following factors, as well as the other information set forth in this prospectus, before making an investment in our common stock. Some of the following risks relate principally to the industry in which we operate and our business in general. Other risks relate principally to the securities market and ownership of our stock. Any of these risk factors could significantly and negatively affect our business, financial condition or operating results and the trading price of our stock. As a result of these risks, you may lose all or part of your investment.

#### Risks Relating to Our Industry

The oceangoing cargo transportation industry is cyclical and volatile, and this may lead to volatility in, and reductions of, our charter rates and volatility in our results of operations.

The oceangoing cargo transportation industry is both cyclical and volatile, with frequent and large fluctuations in charter rates. The charter rates earned by the vessels in our Ocean Business will depend in part upon the state of the vessel market at the time we seek to charter them. We cannot control the forces affecting the supply and demand for these vessels or for the goods that they carry or predict the state of the vessel market on any future date. If the vessel market is in a period of weakness when our vessels' charters expire, we may be forced to re-charter our vessels at reduced rates or even possibly at a rate at which we would incur a loss on operation of our vessels.

Some of the factors that influence the demand for oceangoing vessel capacity include:

global production of and demand for petroleum and petroleum products and dry bulk commodities;

the distance that these products and commodities must be transported by sea;

the globalization of manufacturing and other developments in international trade;

global and regional economic and political conditions;

environmental and other regulatory developments;

weather; and

changes in seaborne and other transportation patterns and the supply of and rates for alternative means of transportation.

Some of the factors that influence the supply of oceangoing vessel capacity include:

the number of newbuilding deliveries;

the scrapping rate of older vessels;

the price of steel;

the number of vessels that are out of service at a given time;

changes in environmental and other regulations that may limit the useful life of vessels; and

port or canal congestion.

Our River Business can be affected by factors beyond our control, particularly adverse weather conditions that can affect production of the goods we transport and navigability of the river system on which we navigate.

We derive a significant portion of our River Business revenue from transporting soybeans and other agricultural products produced in the Hidrovia Region. Droughts and other adverse weather conditions, such as floods, could result in a decline in production of these products, which would likely result in a reduction in demand for our services. In 2005, our results of operations and financial condition were negatively impacted due to the decline in soybean production associated with that year's drought. Drought conditions also affected the size of

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#### Risk factors

the Paraguayan soybean crop in 2006. Further, most of the operations in our River Business occur on the Parana and Paraguay Rivers, and any changes adversely affecting navigability of either of these rivers, such as low water levels, could reduce or limit our ability to effectively transport cargo on the rivers.

The rates we charge and the quantity of freight we transport in our River Business can also be affected by:

demand for the goods we ship on our barges;

adverse river conditions, such as flooding or lock outages, that slow or stop river traffic;

any accidents or operational disruptions to ports, terminals or bridges along the rivers on which we operate;

changes in the quantity of barges available for river transport through the entrance of new competitors or expansion of operations by existing competitors;

the availability of transfer stations and cargo terminals for loading of cargo on and off barges; and

the availability and price of alternate means of transporting goods out of the Hidrovia Region.

A prolonged drought or other series of events that is perceived by the market to have an impact on the region, the navigability of the Parana or Paraguay Rivers or our River Business in general may, in the short term, result in a reduction in the market value of the barges and pushboats that we operate in the region. These barges and pushboats are designed to operate in wide and relatively calm rivers, of which there are only a few in the world. If it becomes difficult or impossible to operate our barges and pushboats profitably in the Hidrovia Region and we are forced to sell them to a third party located outside of the region, there is a limited market in which we would be able to sell these vessels, and accordingly we may be forced to sell them at a substantial loss.

Demand for our PSVs depends on the level of activity in offshore oil and gas exploration, development and production.

The level of offshore oil and gas exploration, development and production activity has historically been volatile and is likely to continue to be so in the future. The level of activity is subject to large fluctuations in response to relatively minor changes in a variety of factors. A prolonged, material downturn in oil and natural gas prices is likely to cause a substantial decline in expenditures for exploration, development and production activity, which would likely result in a corresponding decline in the demand for PSVs and thus decrease the utilization and charter rates of our PSVs. Such decreases could have an adverse effect on our financial condition and results of operations. Moreover, increases in oil and natural gas prices and higher levels of expenditure by oil and gas companies may not result in increased demand for our PSVs. The factors affecting the supply and demand for PSVs are outside of our control, and the nature, timing and degree of changes in industry conditions are unpredictable. If the PSV market is in a period of weakness when our vessels' charters expire, we may be forced to re-charter our vessels at reduced rates or even possibly at a rate at which we would incur a loss on operation of our vessels.

Some of the factors that influence the supply and demand for PSVs include:

worldwide demand for oil and natural gas;

prevailing oil and natural gas prices and expectations about future prices and price volatility;

the cost of offshore exploration for, and production and transportation of, oil and natural gas;

consolidation of oil and gas service companies operating offshore;

availability and rate of discovery of new oil and natural gas reserves in offshore areas;

local and international political and economic conditions and policies;

technological advances affecting energy production and consumption;

weather conditions;

environmental regulation;

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volatility in oil and gas exploration, development and production activity;

the number of newbuilding deliveries; and

deployment of PSVs to areas in which we operate.

Our vessels and our reputation are at risk of being damaged due to operational risks that may lead to unexpected consequences, which may adversely affect our earnings.

Our vessels and their cargos are at risk of being damaged or lost because of events such as marine disasters, bad weather, mechanical failures, structural failures, human error, war, terrorism, piracy and other circumstances or

events. All of these hazards can also result in death or injury to persons, loss of revenues or property, environmental damage, higher insurance rates or loss of insurance cover, damage to our customer relationships that could limit our ability to successfully compete for charters, delay or rerouting, each of which could adversely affect our business. Further, if one of our vessels were involved in an accident with the potential risk of environmental contamination, the resulting media coverage could adversely affect our business.

If our vessels suffer damage, they may need to be repaired. The costs of repairs are unpredictable and can be substantial. We may have to pay repair costs that our insurance does not cover in full. The loss of revenue while these vessels are being repaired and repositioned, as well as the actual cost of these repairs, would decrease our earnings. In addition, space at repair facilities is sometimes limited and not all repair facilities are conveniently located. We may be unable to find space at a suitable repair facility or we may be forced to travel to a repair facility that is not conveniently located near our vessels' positions. The loss of earnings while these vessels are forced to wait for space or to travel to more distant drydocking facilities would decrease our earnings.

Because the fair market value of vessels fluctuates significantly, we may incur losses when we sell vessels.

Vessel values have historically been very volatile. The market value of our vessels may fluctuate significantly in the future, and we may incur losses when we sell vessels, which would adversely affect our earnings. Some of the factors that affect the fair market value of vessels, all of which are beyond our control, are:

general economic, political and market conditions affecting the shipping industry;

number of vessels of similar type and size currently on the market for sale;

the viability of other modes of transportation that compete with our vessels;

cost and number of newbuildings and vessels scrapped;

governmental or other regulations;

prevailing level of charter rates; and

technological advances that can render our vessels inferior or obsolete.

Compliance with safety, environmental, governmental and other requirements may be very costly and may adversely affect our business.

The shipping industry is subject to extensive and changing international conventions and treaties, national, state and local environmental and operational safety laws and regulations in force in international waters and the jurisdictional waters of the countries in which the vessels operate, as well as in the country or countries in which such vessels are registered. These laws and regulations govern, among other things, the management and disposal of hazardous materials and wastes, the cleanup of oil spills and other contamination, air emissions, water discharges and ballast water management, and include (i) the U.S. Oil Pollution Act of 1990, as amended, or OPA, (ii) the International Convention on Civil Liability for Oil Pollution Damage of 1969, and its protocols of 1976, 1984, and 1992, (iii) International Convention for the Prevention of Pollution from Ships or, MARPOL, (iv) the International Maritime Organization, or IMO, International Convention for the Safety of Life at Sea of 1974, or SOLAS, (v) the International Convention on Load Lines of 1966, (vi) the U.S. Maritime Transportation Security Act of 2002 and (vii) the International Ship and Port Facility Security Code, among

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others. In addition, vessel classification societies also impose significant safety and other requirements on our vessels. Many of these environmental requirements are designed to reduce the risk of oil spills and other pollution, and our compliance with these requirements can be costly.

These requirements can affect the resale value or useful lives of our vessels, require a reduction in cargo capacity or other operational or structural changes, lead to decreased availability of insurance coverage for environmental matters, or result in the denial of access to, or detention in, certain ports. Local, national and foreign laws, as well as international treaties and conventions, can subject us to material liabilities in the event that there is a release of petroleum or other hazardous substances from our vessels. We could also become subject to personal injury or property damage claims relating to exposure to hazardous materials associated with our current or historic operations. In addition, environmental laws require us to satisfy insurance and financial responsibility requirements to address oil spills and other pollution incidents, and subject us to rigorous inspections by governmental authorities. Violations of such requirements can result in substantial penalties, and in certain instances, seizure or detention of our vessels. Additional laws and regulations may also be adopted that could limit our ability to do business or increase the cost of our doing business and that could have a material adverse effect on our operations. Government regulation of vessels, particularly in the areas of safety and environmental impact, may change in the future and require us to incur significant capital expenditure on our vessels to keep them in compliance, or to even scrap or sell certain vessels altogether. For example, beginning in 2003, we sold all of our single hull oceangoing tanker vessels in response to regulatory requirements in Europe and the United States. In addition, Annex VI of MARPOL, which became effective May, 2005, sets limits on sulphur oxide, nitrogen oxide and other emissions from vessel exhausts and prohibits deliberate emissions of ozone depleting substances, such as chlorofluorocarbons. Future changes in laws and regulations may require us to undertake similar measures, and any such actions may be costly. We believe that regulation of the shipping industry will continue to become more stringent and more expensive for us and our competitors. For example, various jurisdictions are considering regulating the management of ballast water to prevent the introduction of non-indigenous species considered to be invasive, which could increase our costs relating to such matters.

MARPOL requirements impose phase-out dates for vessels that are not certified as double hull. Our new acquisition Alejandrina as well as our Aframax vessel Princess Marina and two of our Suezmax vessels, Princess Nadia and Princess Susana, are fully certified by class as double hull vessels. Our Princess Katherine currently does not meet the configuration criteria and will require modifications to comply with these criteria before the end of 2010. These modifications will not involve major steel work. Our vessel, Miranda I, does not currently comply with the double hull requirement unless she limits her loading to center tanks only. However, we expect to retrofit her to full double hull



compliance during the second quarter of 2007. Our vessel Amadeo is currently being retrofitted to double hull at a shipyard in Romania and we expect to have her fully certified in the second quarter of 2007. Our oceangoing barge Alianza G-3 although of double hull construction does not meet the minimum height criteria in double bottoms required by Rule 13 and therefore currently has a phase out date of December 2008. However, we are in the process of applying for an exemption, which if granted, will permit this unit to operate in her present state until the end of her useful life.

In the United States, OPA provides that owners, operators and bareboat charterers are strictly liable for the discharge of oil in U.S. waters, including the 200 nautical mile zone off the U.S. coasts. OPA provides for unlimited liability in some circumstances, such as a vessel operator's gross negligence or willful misconduct. OPA also permits states to set their own penalty limits. Most states bordering navigable waterways impose unlimited liability for discharges of oil in their waters. The IMO has adopted a similar liability scheme that imposes strict liability for oil spills, subject to limits that do not apply if the release is caused by the vessel owner's intentional or reckless conduct. The IMO and the European Union, or EU, also have adopted separate phase-out schedules applicable to non-double hull tankers operating in international and EU waters. These regulatory programs may require us to introduce modifications or changes to tank configuration to meet the EU double hull standards for our vessels or otherwise remove them from operation.

Under OPA, with certain limited exceptions, all newly built or converted tankers operating in U.S. waters must be built with double hulls conforming to particular specifications. Tankers that do not have double hulls are subject to structural and operational measures to reduce oil spills and will be precluded from operating in U.S.

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waters in most cases by 2015 according to size, age, hull configuration and place of discharge unless retrofitted with double hulls. In addition, OPA specifies annual inspections, vessel manning, equipment and other construction requirements applicable to new and existing vessels that are in various stages of development by the U.S. Coast Guard, or USCG.

Under OPA, and per USCG interpretations, our Aframax and Suezmax OBOs will be precluded from operation in U.S. waters in 2014. The following information has been extracted from the TVEL/COC corresponding to the vessels' last inspection at a U.S. port.

Name	Phase-out date*	Last TVEL/COC issuance date**
Princess Katherine	N/A	March 26, 2003
Princess Nadia	January 2014	August 26, 2001
Princess Susana	November 2014	February 18, 2003
Princess Marina	March 2014	August 29, 2002

\*

As per the last Tank Vessel Examination Letter, or TVEL/Certificate of Compliance, or COC.

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The USCG inspects vessels upon entry to U.S. ports and determines when such vessels will be phased out under OPA, the dates of which are recorded in the TVEL or the COC. On April 30, 2001, the USCG replaced the TVEL with a newly generated document, the COC. The USCG issues the COC for each tanker if and when the vessel calls on a U.S. port and the COC is valid for a period of two years, with mid-period examination. All above TVEL are therefore expired and these vessels must be re-inspected upon their next entry into a U.S. port.

There was no phase-out date imposed on Princess Katherine at the time of its last inspection by the USCG. Although Princess Nadia, Princess Marina and Princess Susana are double hull vessels, due to configuration requirements under the U.S. double hull standards, the phase-out dates indicated above are applicable. For the same reasons, Princess Katherine could be given a phase out date if or when next inspected by the USCG.

In 2010, the IMO will enforce mandatory SOLAS requirements so that all passenger vessels operating must be built under regulation SOLAS 60, Part H, restricting use of combustible material and requiring that all passenger vessels be fully outfitted with sprinklers in both the passenger and engine room spaces.

The Grand Victoria was built according to the rules of regulation SOLAS 60, but using method II, along with a sprinkler system installed during construction. However, under method II generally there was no restriction on any type of internal division and this method allowed combustible material to be used during construction which is now generally not permissible pursuant to the SOLAS amendments. Therefore, for trading beyond 2010, this vessel will require a complete refurbishment that we cannot assure you will be economically viable.

The oceangoing cargo transportation industry is highly competitive, and we may not be able to compete successfully for charters with new entrants or established companies with greater resources.

We employ our vessels in highly competitive markets. The oceangoing market is international in scope and we compete with many different companies, including other vessel owners and major oil companies, such as Transpetro, a subsidiary of Petrobras. In our Offshore Supply Business, we compete with companies that operate PSVs, such as Maersk, Seacor and Tidewater. Some of these competitors are significantly larger than we are and have significantly greater resources than we do. This may enable these competitors to offer their customers lower prices, higher quality service and greater name recognition than we do. Accordingly, we may be unable to retain our current customers or to attract new customers. Further, some of these competitors, such as Transpetro, are affiliated with or owned by the governments of certain countries, and may receive government aid or legally imposed preferences or other assistance, that are unavailable to us.

Our OBOs are less desired by certain charterers in the tanker market.

OBOs are versatile because they can transport both petroleum products and dry bulk cargos. Unlike the more traditional type of tanker, an OBO has fewer tanks, but each tank is generally larger. Prior to the advent of computerized loading systems, the possibility of cargo shifting that could result in a vessel becoming unstable, required the use of extra caution when loading an OBO. While this issue, like other concerns originally linked to OBOs, has been solved with new technology, OBOs are still less desired by certain charterers who prefer to use

the more traditional form of tanker to transport oil and other petroleum products. To the extent any charterers elect not to use our OBOs and instead use standard tankers, this could have a negative impact on our business and financial results.

Increased inspection procedures and tighter import and export controls could increase costs and disrupt our business.

International shipping is subject to various security and customs inspection and related procedures in countries of origin and destination. Inspection procedures can result in the seizure of our vessels or their cargos, delays in the loading, offloading or delivery and the levying of customs duties, fines or other penalties against us.

Future changes to inspection procedures could impose additional financial and legal obligations on us. Furthermore, changes to inspection procedures could also impose additional costs and obligations on our customers and may, in certain cases, render the shipment of certain types of cargo uneconomical or impractical. Any such changes or developments may have a material adverse effect on our business, financial condition, results of operations and ability to pay dividends.

Compliance with safety and other vessel requirements imposed by classification societies or flag states may be very costly and may adversely affect our business.

The hull and machinery of our offshore supply fleet, ocean fleet, passenger fleet and parts of our river fleet are classed by a classification society. The classification society certifies that a vessel is in class, and may also issue the vessel's safety certification in accordance with the applicable rules and regulations of the country of registry of the vessel and SOLAS. Our classed vessels are currently enrolled with classification societies that are members of the International Association of Classification Societies.

A classed vessel must undergo Annual Surveys, Intermediate Surveys and Special Surveys. In lieu of a Special Survey, a vessel's machinery may be placed on a continuous survey cycle, under which the machinery would be surveyed periodically over a five-year period. Our vessels are on Special Survey cycles for hull inspection and continuous survey cycles for machinery inspection. Generally, classed vessels are also required to be drydocked every two to three years for inspection of the underwater parts of such vessels. However, classed vessels must be drydocked for inspection at least twice every five years.

If a vessel does not maintain its class, that vessel will, in practical terms, be unable to trade and will be unemployable, which would negatively impact our revenues, and could cause us to be in violation of certain covenants in our loan agreements and/or our insurance policies.

Our vessels could be subject to seizure through maritime arrest or government requisition.

Crew members, suppliers of goods and services to a vessel, shippers of cargo, and other parties may be entitled to a maritime lien against a vessel for unsatisfied debts, claims or damages. In many jurisdictions, a maritime lienholder may enforce its lien by arresting the vessel or, under the "sister ship" theory of liability followed in some jurisdictions, arrest the vessel that is subject to the claimant's maritime lien or any other vessel owned or controlled by the same owner. In addition, a government could seize ownership of one of our vessels or take control of a vessel and effectively become her charterer at charter rates dictated by the government. Generally, such requisitions occur during a period of war or emergency. The maritime arrest, government requisition or any other seizure of one or more of our vessels could interrupt our operations, reducing related revenue and earnings, and may require us to pay very large sums of money to have the arrest lifted.

The impact of terrorism and international conflict on the global or regional economy could lead to reduced demand for our services, which would adversely affect our revenues and earnings.

Terrorist attacks such as the attacks on the United States on September 11, 2001, and the continuing response of the United States to these attacks, as well as the threat of future terrorist attacks, continue to cause uncertainty in the world markets and may affect our business, results of operations and financial condition. The conflict in Iraq may lead to additional acts of terrorism, regional conflict and other armed conflict around the world, which

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## Risk factors

may contribute to further instability in the global markets. In addition, future terrorist attacks could result in an economic recession affecting the United States or the entire world. The effects of terrorism on financial markets could also adversely affect our ability to obtain additional financing on terms acceptable to us or at all.

Terrorist attacks have, in the past, targeted shipping interests, including ports or vessels. For example in October 2002, there was a terrorist attack on the VLCC Limburg, a vessel not related to us. Any future attack in the markets we serve may negatively affect our operations or demand for our services, and such attacks may also directly impact our vessels or our customers. Further, insurance may not cover our loss or liability for terrorist attacks on our vessels, cargo or passengers either fully or at all. Any of these occurrences could have a material adverse impact on our operating results, revenue and costs.

Demand for cruises in our Passenger Business may be affected by many factors that are outside our control.

Demand for cruises in our Passenger Business may be affected by a number of factors. Sales are dependent on the underlying economic strength of the countries in which we operate and the country of origin of our passengers, which is currently primarily countries in Europe. Adverse economic conditions can reduce the level of consumers' disposable income that is available for their vacation choices. In addition, events or circumstances that make cruises relatively less attractive relative to other vacation or leisure alternatives will reduce consumer demand for cruises. Finally, the overall increase in passenger capacity in the cruise industry could lead to reduced demand for our vessels, and if the charterer of one of our vessels does not perform under the charter, we will be unable to re-charter that vessel in the middle of a cruise season. When our vessels are not operating under charter, we do not have a guaranteed minimum number of passengers and we may not be able to attract enough passengers to fully cover our costs.

Moreover, adverse incidents involving passenger vessels and adverse media publicity concerning the cruise industry in general or our vessels in particular may reduce demand. The operation of passenger vessels involves the risk of accidents, fires, sicknesses and other incidents, which may bring into question passenger safety and security and adversely affect future industry performance. Any accidents and other incidents involving our passenger vessels would adversely affect our future revenues and earnings. In addition, accidents involving other cruise businesses or other adverse media publicity concerning the cruise industry in general could impact customer demand and, therefore, have an adverse impact on our revenues and earnings.

In addition, armed conflicts or political instability in areas where our passenger vessels operate can adversely affect demand for our cruises to those areas. Also, acts of terrorism and threats to public health can have an adverse effect on the public's attitude toward the safety and security of travel and the availability of air service and other forms of transportation, which some of our passengers use to travel.

Environmental, health, safety and security legislation and regulation of passenger vessels could increase our operating costs in our Passenger Business.

Some environmental groups have lobbied for more stringent regulation of passenger vessels. Some groups also have generated negative publicity about the cruise industry and its environmental impact. As a result of these and other actions, governmental and regulatory authorities around the world may enact new environmental, health, safety and security legislation and regulations, such as those governing wastewater discharges. Stricter environmental, health, safety and security legislation and regulations could increase the cost of compliance and adversely affect the cruise industry.

In addition, as a result of the 2002 Protocol of the Athens Convention, and any similar legislation, vessel operators are, and may be in the future, required to adopt enhanced security procedures and approved vessel security plans. Stricter environmental, health, safety, insurance and security legislation and regulations could increase the cost of compliance and adversely affect the cruise industry. We cannot assure you that our costs of complying with current and future laws and regulations, or liabilities arising from past or future releases of, or exposure to, hazardous substances, or to vessel discharges, will not have a material adverse effect on our financial results.

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## Risk factors

### Risks Relating to Our Company

We are an international company that is exposed to the risks of doing business in many different, and often less developed and emerging market countries.

We are an international company and conduct almost all of our operations outside of the United States, and we expect to continue doing so for the foreseeable future. Some of these operations occur in countries that are less developed and stable than the United States, such as Argentina, Bolivia, Brazil, Chile, China, Paraguay, South Africa and Uruguay. Some of the risks we are exposed to by operating in these countries include among others:

political and economic instability, changing economic policies and conditions, and war and civil disturbances;

recessions in economies of countries in which we have business operations;

the imposition of additional withholding taxes or other taxes on our foreign income, tariffs or other restrictions on foreign trade or investment, including currency exchange controls and currency repatriation limitations;

the imposition of executive and judicial decisions upon our vessels by the different governmental authorities associated with some of these countries;

the imposition of or unexpected adverse changes in foreign laws or regulatory requirements;

longer payment cycles in foreign countries and difficulties in collecting accounts receivable;

difficulties and costs of staffing and managing our foreign operations; and

acts of piracy or terrorism.

These risks may result in unforeseen harm to our business and financial condition. Also, some of our customers are headquartered in South America, and a general decline in the economies of South America, or the instability of certain South American countries and economies, could adversely affect that part of our business.

Our business in emerging markets requires us to respond to rapid changes in market conditions in these countries. Our overall success in international markets depends, in part, upon our ability to succeed in different legal, regulatory, economic, social and political conditions. We may not continue to succeed in developing and implementing policies and strategies which will be effective in each location where we do business. Further, the occurrence of any of the foregoing factors may have a material adverse effect on our business and results of operations.

Our earnings may be lower and more volatile if we do not efficiently deploy our vessels between longer term and shorter term charters.

We employ our ocean and offshore vessels on spot voyages, which are typically single voyages for a period of less than 60 days for our ocean vessels and five days for our PSVs, and on time charters and contracts of affreightment, which are longer term contracts for periods of typically three months to three years or more. As of December 31, 2006, four of our seven oceangoing vessels were employed under time charters expiring on dates ranging between four and 20 months, the vast majority of our fleet of pushboats and barges in our River Business were employed under contracts of affreightment ranging from one month to four years, and both of our PSVs operating in the North Sea were chartered for a period of three to five months. In addition, our two PSVs operating in Brazil and our PSV to be delivered in the second quarter of 2007 were time chartered to Petrobras for periods from eight to sixteen months.

Although time charters and contracts of affreightment provide steady streams of revenue, vessels committed to such contracts are unavailable for spot voyages or for entry into new longer term time charters or contracts of affreightment. If such periods of unavailability coincide with a time when market prices have risen, such vessels will be unable to capitalize on that increase in market prices. If our vessels are available for spot charter or entry into new time charters or contracts of affreightment, they are subject to market prices, which may vary greatly.

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#### Risk factors

If such periods of availability coincide with a time when market prices have fallen, we may have to deploy our vessels on spot voyages or under long term time charters or contracts of affreightment at depressed market prices, which would lead to reduced or volatile earnings and may also cause us to suffer operating losses.

We may not be able to grow our business or effectively manage our growth.

A principal focus of our strategy is to continue to grow, in part by increasing the number of vessels in our fleet. The rate and success of any future growth will depend upon factors which may be beyond our control, including our ability to:

identify attractive businesses for acquisitions or joint ventures;

identify vessels for acquisitions;

integrate any acquired businesses or vessels successfully with our existing operations;

hire, train and retain qualified personnel to manage and operate our growing business and fleet;

identify new markets;

expand our customer base;

improve our operating and financial systems and controls; and

obtain required financing for our existing and new operations.

We may not be successful in executing our growth plans and could incur significant expenses and losses in connection therewith.

Furthermore, because the volume of cargo we ship in our River Business is at or near the capacity of our barges during the peak season, our ability to increase volumes shipped in our River Business is limited by our ability to increase our barge fleet's carrying capacity, either through purchasing additional barges or increasing the size of our existing barges.

Our planned investments in our River Business vessels are subject to significant uncertainty.

We intend to invest in expanding the size of our barges, expanding the capacity of our shipyard in the Hidrovia region to build new barges and installing new engines that burn less expensive fuel in our line pushboats. It is possible that these initiatives will fail to result in increased revenues and lower fuel costs, fail to result in cost-effective barge construction, or that they will lead to other complications that would adversely affect our business.

The increased capacity created by expanding the size of our existing barges and by building new barges may not be utilized by the local transportation market at prevailing prices or at all. Our expansion activities may also be subject to delays, which may result in cost overruns or lost revenues. Any of these developments would adversely affect our revenue and earnings.

While we expect the heavier fuel that our new engines burn to continue to be available at a discount to the price of the fuel that we currently use, the heavier fuel may not be available at such a large discount or at any discount at all. In addition, operating our new engines will require specially trained personnel, and such personnel may not be readily available. Higher fuel or personnel costs would adversely affect our profitability. The operation of these new engines may also result in other complications that cannot easily be foreseen and that may adversely affect the quantity of cargo we carry or lead to additional costs, which could adversely affect our revenue and earnings.

We may not be able to charter our new PSVs at attractive rates.

We have contracted with a shipyard in Brazil to construct two new PSVs and expect to take delivery of these vessels during the second quarter of 2007 and in 2008 and have also contracted with a shipyard in India to build two PSVs for delivery commencing in 2009, with an option to build two additional vessels beyond 2009. Most of these vessels are not currently subject to charters and may not be subject to charters on their date of delivery. Although we intend to charter these vessels to Petrobras and other charterers, we may not be able to do

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#### Risk factors

so. Even if we do obtain charters for these vessels, the charters may be at rates lower than those that currently prevail or those that we anticipated at the time we ordered the vessels. If we fail to obtain charters or if we enter into charters with low charter rates, our financial condition and results of operations could suffer.

We may face delays in delivery under our newbuilding contracts for PSVs which could adversely affect our financial condition and results of operations.

Our four PSVs currently under construction and additional newbuildings for which we may enter into contracts may be subject to delays in their respective deliveries or non-delivery from the shipyards. The delivery of our PSVs could be delayed, canceled, become more expensive or otherwise not completed because of, among other things:

quality or engineering problems;

changes in governmental regulations or maritime self-regulatory organization standards;

work stoppages or other labor disturbances at the shipyard;

bankruptcy or other financial crises of the shipyard;

economic factors affecting the yard's ability to continue building the vessels as originally contracted;



a backlog of orders at the shipyard;

weather interference or a catastrophic event, such as a major earthquake or fire or any other force majeure;

our requests for changes to the original vessel specifications;

shortages of or delays in the receipt of necessary construction materials, such as steel or machinery, such as engines;

our inability to obtain requisite permits or approvals or to receive the required classifications for the vessels from authorized classification societies; or

a shipbuilder's failure to otherwise meet the scheduled delivery dates for the PSVs or failure to deliver the vessels at all.

If the delivery of any PSV is materially delayed or canceled, especially if we have committed that PSV to a charter for which we become responsible for substantial liquidated damages to the customer as a result of the delay or cancellation, our business, financial condition and results of operations could be adversely affected. Although the building contracts typically incorporate penalties for late delivery, we cannot assure you that the vessels will be delivered on time or that we will be able to collect the late delivery payment from the shipyards.

We cannot assure you that we will be able to repossess the vessels under construction or their parts in case of a default of the shipyards and, in those cases where we may have performance guarantees, we cannot assure that we will always be able to collect or that it will be in our interest to collect these guarantees.

We depend on a few significant customers for a large part of our revenues, and the loss of one or more of these customers could adversely affect our revenues.

In each of our business segments, we derive a significant part of our revenues from a small number of customers. In 2006, our largest customer accounted for 14% of our total revenues, our second largest customer accounted for 11% of our total revenues, and our third largest customer accounted for 10% of our total revenue. Our five largest customers in terms of revenues, in aggregate, accounted for 48% of our total revenues. In addition, some of our customers, including many of our most significant customers such as Petrobras and Archer Daniels Midland, operate vessels of their own. These customers may decide to cease or reduce the use of our services for any number of reasons, including in order to utilize their own vessels. The loss of any one or a number of our significant customers, whether to our competitors or otherwise, could adversely affect our revenues and earnings.

## Risk factors

Rising fuel prices may adversely affect our profits.

Fuel is the largest operating expense in our River Business where most of our contracts are contracts of affreightment under which we are paid per ton of cargo shipped. Currently, many of these agreements permit the adjustment of freight rates based on changes in the price of fuel. We may not be able to include this provision in these contracts when they are renewed or in future contracts with new customers. In our Ocean, Offshore Supply and Passenger Businesses, the risk of variation of fuel prices under the vessels' current employment is generally borne by the charterers, since the charterers are generally responsible for the supply of fuel, with the exception of our Blue Monarch's employment in the Aegean in 2007, where we will bear the risk of variation in fuel prices. In the future, we may become responsible for the supply of fuel to such vessels, in which case variations in the price of fuel could affect our earnings.

To the extent our contracts do not pass on changes in fuel prices, we will be forced to bear the cost of fuel price increases. We may hedge in the futures market all or part of our exposure to fuel price variations. We cannot assure you that we will be successful in hedging our exposure. In the event of a default by our charterers or other circumstance affecting the performance of a contract of affreightment, we are subject to exposure under, and may incur losses in connection with, our hedging instruments.

In certain jurisdictions, the price of fuel is affected by high local taxes and may become more expensive than prevailing international prices. We may not be able to pass onto our customers the additional cost of such taxes and may suffer losses as a consequence.

Our success depends upon our management team and other employees, and if we are unable to attract and retain key management personnel and other employees, our results of operations may be negatively impacted.

Our success depends to a significant extent upon the abilities and efforts of our management team and our ability to retain them. In particular, many members of our senior management team, including our CEO and Executive Vice President, have extensive experience in the shipping industry and have held their roles with us since our inception. If we were to lose their services for any reason, it is not clear whether any available replacements would be able to manage our operations as effectively. The loss of any of the members of our management team could adversely affect our business prospects and results of operations and could lead to an immediate decrease in the price of our common stock. We do not maintain "key man" insurance on any of our officers. Further, the efficient and safe operation of our vessels requires skilled and experienced crew members. Difficulty in hiring and retaining such crew members could adversely affect the operation of our vessels, and in turn, adversely affect our results of operations.

We may use the proceeds of this offering for general corporate purposes with which you may not agree.

We will use a portion of the proceeds of this offering for general corporate purposes. In addition, if the shipyard in India, where we intend to have our two additional PSVs built, fails to deliver the PSVs to us as agreed, if we cancel a contract because the shipyard has not met its obligations, if we decide that continuing with this program is no longer desirable, or if we decide to refinance the PSVs at some point in the future, our management will have the discretion to apply the \$43.3 million of proceeds of this offering that we would have used to purchase those PSVs to acquire other vessels or for general corporate purposes. Similarly, we may decide not to complete the expansion of our shipyard capacity, in which case, our management will have the discretion to apply \$12.0 million to other uses, including general corporate purposes. You may not agree with the purposes for which we use such proceeds. We will not escrow the proceeds from this offering and will not return the proceeds to you if we do not take delivery of one or more PSVs or if we do not execute our plans to expand the capacity of our shipyard. It may take a substantial period of time before we can locate and purchase other suitable vessels. During this period, the portion of the proceeds of this

offering originally planned for these purposes may only be invested on a short-term basis and therefore may not yield returns at rates comparable to those these PSVs might have earned.

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## Risk factors

Secondhand vessels are more expensive to operate and repair than newbuildings and may have a higher likelihood of accidents.

We purchased all of our oceangoing vessels, and substantially all of our other vessels with the exception of our PSVs, secondhand and our current business strategy generally includes growth through the acquisition of additional secondhand vessels. While we inspect secondhand vessels prior to purchase, we may not discover defects or other problems with such vessels prior to purchase. Any such hidden defects or problems, when detected, may be expensive to repair, and if not detected, may result in accidents or other incidents for which we are liable to third parties.

New vessels may experience initial operational difficulties.

New vessels, during their initial period of operation, have the possibility of encountering structural, mechanical and electrical problems. Normally, we will receive a warranty from the shipyard but we cannot assure you that it will always be effective to resolve the problem without additional costs to us.

As our fleet ages, the risks and costs associated with older vessels increase.

The costs to operate and maintain a vessel in operation increase with the age of the vessel. Charterers may prefer newer vessels which carry lower cargo insurance rates and are more fuel-efficient than older vessels. Governmental regulations, safety or other equipment standards related to the age of vessels may require expenditures for alterations or the addition of new equipment, to our vessels and may restrict the type of activities in which these vessels may engage. As our vessels age, market conditions may not justify the expenditures necessary for us to continue operation of our vessels, and charterers may no longer charter our vessels at attractive rates or at all. Either development could adversely affect our earnings.

We may not have adequate insurance to compensate us if our vessels or property are damaged or lost or if we harm third parties or their property or the environment.

We insure against tort claims and some contractual claims (including claims related to environmental damage and pollution) through memberships in protection and indemnity, or P&I, associations, or clubs. We also procure hull and machinery insurance and war risk insurance for our fleet. In some instances, we do not procure loss of hire insurance, which covers business interruptions that result in the loss of use of a vessel. We cannot assure you that such insurance will continue to be available on a commercially reasonable basis.

In addition to the P&I entry that we currently maintain for the PSVs in our fleet, we maintain third party liability insurance covering contractual claims that may not be covered by our P&I entry in the amount of \$50.0 million. If claims affecting such policy exceed the above amount, it could have a material adverse effect on our business and the results of operations.

All insurance policies that we carry include deductibles (and some include limitations on partial loss) and since it is possible that a large number of claims may be brought, the aggregate amount of these deductibles could be material. Further, our insurance may not be sufficient to fully compensate us against losses that we incur, whether resulting

from damage to or loss of our vessels, liability to a third party, harm to the environment or other catastrophic claims. For example, our protection and indemnity insurance has a coverage limit of \$1.0 billion for oil spills and related harm to the environment, \$2.0 billion for passenger claims and \$3.0 billion for passenger and seamen claims. Although the coverage amounts are significant, the amounts may be insufficient to fully compensate us, and, thus, any uninsured losses that we incur may be substantial and may have a very significant effect on our financial condition. In addition, our insurance may be voidable by the insurers as a result of certain of our actions, such as our ships failing to maintain certification with applicable maritime self-regulatory organizations or lack of payment of premiums.

We cannot assure you that we will be able to renew our existing insurance policies on the same or commercially reasonable terms, or at all, in the future. For example, more stringent environmental regulations have led in the past to increased costs for, and in the future may result in lack of availability of, protection and indemnity insurance against risks of environmental damage or pollution. Each of our policies is also subject to limitations and exclusions, and our insurance policies may not cover all types of losses that we could incur. Any uninsured or under-insured loss could harm our business, financial condition and operating results. Furthermore, we

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#### Risk factors

cannot assure you that the P&I clubs to which we belong will remain viable. We may also become subject to funding calls due to our membership in the P&I clubs which could adversely affect our profitability. Also, certain claims may be covered by our P&I insurance, but subject to the review and at the discretion of the board of the P&I club. We cannot assure you that the board will exercise its discretion to vote to approve the claim.

Labor disruptions in the shipping industry could adversely affect our business.

As of December 31, 2006, we employed 188 land-based employees and approximately 667 seafarers as crew on our vessels. These seafarers are covered by industry-wide collective bargaining agreements that set basic standards applicable to all companies who hire such individuals as crew. Because most of our employees are covered by these industry-wide collective bargaining agreements, failure of industry groups to renew these agreements may disrupt our operations and adversely affect our earnings. In addition, we cannot assure you that these agreements will prevent labor interruptions. Any labor interruptions could disrupt our operations and harm our financial performance.

Certain conflicts of interest may adversely affect us.

Certain of our directors and officers hold similar positions with other related companies. Felipe Menendez R., who is our President, Chief Executive Officer, and a Director, is a Director of Oceanmarine, a related company that previously provided administrative services to us and has entered into joint ventures with us in salvage operations. Oceanmarine also operates slot charter container services between Argentina and Brazil, an activity in which we do not engage at the present time. Ricardo Menendez R., who is our Executive Vice President and one of our Directors, is the President of Oceanmarine, and is also the Chairman of The Standard Steamship Owners' Protection and Indemnity Association (Bermuda) Limited, or Standard, a P&I club with which some of our vessels are entered. Both Mr. Ricardo Menendez R. and Mr. Felipe Menendez R. are Directors of Maritima SIPSA, a company owned 49% by us and 51% by SIPSA S.A. (a related company), which has entered into agreements to purchase and resell from and to our subsidiaries our vessel Princess Marina, and Directors of Shipping Services Argentina S.A. (formerly I. Shipping Services), a company that provides vessel agency services for third parties in Argentina and occasionally for our vessels calling at Buenos Aires and other Argentinean ports. We are not engaged in the vessel agency business and the consideration we paid for the services provided by Shipping Services Argentina S.A. to us amounted to less than \$0.1 million in 2006. Although these directors and officers attempt to perform their duties within each company

independently, in light of their positions with such entities, these directors and officers may face conflicts of interest in selecting between our interests and those of Oceanmarine, Shipping Services Argentina S.A. and the Standard. In addition, Shipping Services Argentina S.A. and Oceanmarine are indirectly controlled by the Menendez family, including Felipe Menendez R. and Ricardo Menendez R. These conflicts may limit our fleet's earnings and adversely affect our operations. We refer you to "Related party transactions" for more information on related party transactions.

To service our indebtedness, we will require a significant amount of cash. Our ability to generate cash depends on many factors beyond our control.

Our ability to make payments on and to refinance our indebtedness, including the Notes and any amounts borrowed under any of our subsidiaries' credit facilities, and to fund our operations, will depend on our ability to generate cash in the future, which, to a certain extent, is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. We cannot assure you that our business will generate sufficient cash flow from operations, that currently anticipated business opportunities will be realized on schedule or at all, or that future borrowings will be available to us in amounts sufficient to enable us to service our indebtedness, including the Notes and any amounts borrowed under our subsidiaries' credit facilities, or to fund our other liquidity needs.

If we cannot service our debt, we will have to take actions such as reducing or delaying capital investments, selling assets, restructuring or refinancing our debt, or seeking additional equity capital. We cannot assure you that any of these remedies could, if necessary, be effected on commercially reasonable terms, or at all. In addition, the indenture for the Notes and the credit agreements governing our subsidiaries' various credit

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## Risk factors

facilities may restrict us from adopting any of these alternatives. If we are not successful in, or are prohibited from, pursuing any of these remedies and cannot service our debt, our secured creditors may foreclose on our assets over which they have been granted a security interest.

We may not be able to obtain financing for our growth or to fund our future capital expenditures, which could negatively impact our results of operations and financial condition.

In order to follow our current strategy for growth, we will need to fund future vessel acquisitions, increased working capital levels and increased capital expenditures. In the future, we will also need to make capital expenditures required to maintain our current fleet and infrastructure. We do not currently believe that cash generated from our earnings will be sufficient to fund all of these measures. Accordingly, we will need to raise capital through borrowings or the sale of debt or equity securities. Our ability to obtain bank financing or to access the capital markets for future offerings may be limited by our financial condition at the time of any such financing or offering, as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. If we fail to obtain the funds necessary for capital expenditures required to maintain our fleet and infrastructure, we may be forced to take vessels out of service or curtail operations, which would harm our revenue and profitability. If we fail to obtain the funds necessary to acquire new vessels, or increase our working capital or capital expenditures, we would not be able to grow our business and our earnings could suffer. Furthermore, any issuance of additional equity securities could dilute your interest in us and the debt service required for any debt financing would limit cash available for working capital and the payment of dividends, if any.

We do not currently have a revolving credit facility that could fund any short term liquidity needs.

We do not currently have a revolving credit facility. Accordingly, if we should need additional liquidity, we will need to obtain additional financing in the form of debt or equity. Events that could require us to obtain such financing include seasonal fluctuations, acquisitions of vessels or businesses, interruptions in the operations of one or more of our businesses, market downturns, growth in working capital demands, damage to our vessels or infrastructure, and other events. Furthermore, any of these events could be unforeseen or unexpected and require us to obtain additional financing in a very short period of time. If we should require additional liquidity, we may not be able to obtain necessary financing on attractive terms or at all due to a number of factors that could exist at the time, including adverse financial markets, adverse developments in our business or industry, a short time frame in which to obtain such financing, and other factors. If we are unable to obtain any financing required to fund our short term liquidity needs, our financial condition and results of operations would be adversely affected, and we may be unable to make required payments under some or all of our obligations.

We may not be able to fulfill our obligations in the event we suffer a change of control.

If we suffer a change of control, we will be required to make an offer to repurchase the Notes at a price of 101% of their principal amount plus accrued and unpaid interest. Under certain circumstances, a change of control of our company may also constitute a default under our credit facilities resulting in our lenders' right to accelerate their loans. We may not be able to satisfy our obligations if a change of control occurs.

Our subsidiaries' credit facilities and the indenture governing our Notes impose significant operating and financial restrictions on us that may limit our ability to successfully operate our business.

Our subsidiaries' credit facilities and the indenture governing the Notes impose significant operating and financial restrictions on us, including those that limit our ability to engage in actions that may be in our long term interests. These restrictions limit our ability to, among other things:

incur additional debt;

pay dividends or make other restricted payments;

create or permit certain liens;

make investments;

engage in sale and leaseback transactions;

sell vessels or other assets;

create or permit restrictions on the ability of our restricted subsidiaries to pay dividends or make other distributions to us;

engage in transactions with affiliates; and

consolidate or merge with or into other companies or sell all or substantially all of our assets.

See “Description of credit facilities and other indebtedness.” These restrictions could limit our ability to finance our future operations or capital needs, make acquisitions or pursue available business opportunities.

In addition, some of our subsidiaries’ credit facilities require that our subsidiaries maintain specified financial ratios and satisfy financial covenants. We may be required to take action to reduce our debt or to act in a manner contrary to our business objectives to meet these ratios and satisfy these covenants. Events beyond our control, including changes in the economic and business conditions in the markets in which our subsidiaries operate, may affect their ability to comply with these covenants. We cannot assure you that our subsidiaries will meet these ratios or satisfy these covenants or that our subsidiaries’ lenders will waive any failure to do so. A breach of any of the covenants in, or our inability to maintain the required financial ratios under, our subsidiaries’ credit facilities would prevent our subsidiaries from borrowing additional money under the facilities and could result in a default under them.

If a default occurs under our credit facilities or of those of our subsidiaries, the lenders could elect to declare that debt, together with accrued interest and other fees, to be immediately due and payable and proceed against the collateral securing that debt. Moreover, if the lenders under a credit facility or other agreement in default were to accelerate the debt outstanding under that facility, it could result in a default under other debt. If all or any part of our debt were to be accelerated, we may not have or be able to obtain sufficient funds to repay it or to repay the Notes upon acceleration.

If we are unable to fund our capital expenditures, we may not be able to continue to operate some of our vessels, which would have a material adverse effect on our business and financial condition or our ability to pay dividends.

In order to fund our capital expenditures, we may be required to incur borrowings or raise capital through the sale of debt or equity securities. Our ability to obtain credit facilities and access the capital markets through future offerings may be limited by our financial condition at the time of any such offering as well as by adverse market conditions resulting from, among other things, general economic conditions and contingencies and uncertainties that are beyond our control. Our failure to obtain the funds necessary for future capital expenditures would limit our ability to continue to operate some of our vessels and could have a material adverse effect on our business, results of operations and financial condition and our ability to pay dividends. Even if we are successful in obtaining such funds through financings, the terms of such financings could further limit our ability to pay dividends.

We are a holding company, and we depend entirely on the ability of our subsidiaries to distribute funds to us in order to satisfy our financial and other obligations.

We are a holding company, and as such we have no significant assets other than the equity interests of our subsidiaries. Our subsidiaries conduct all of our operations and own all of our operating assets. As a result, our ability to pay dividends and service our indebtedness depends on the performance of our subsidiaries and their ability to distribute funds to us. The ability of our subsidiaries to make distributions to us may be restricted by, among other things, restrictions under our credit facilities and applicable laws of the jurisdictions of their incorporation or organization. For example, some of our subsidiaries' existing credit agreements contain significant restrictions on the ability of our subsidiaries to pay dividends or make other transfers of funds to us. See "Description of credit facilities and other indebtedness." Further, some countries in which our subsidiaries are incorporated require our subsidiaries to receive central bank approval before transferring funds out of that country. In addition, under limited circumstances, the indenture governing the Notes permits our subsidiaries to

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enter into additional agreements that can limit our ability to receive distributions from such subsidiaries. If we are unable to obtain funds from our subsidiaries, we will not be able to service our debt or pay dividends, should we decide to do so, unless we obtain funds from other sources, which may not be possible.

We are exposed to U.S. dollar and foreign currency fluctuations and devaluations that could harm our reported revenue and results of operations.

We are an international company and, while our financial statements are reported in U.S. dollars, some of our operations are conducted in foreign currencies. For example, in 2006, 77% of our revenues were denominated in U.S. dollars, 10% were denominated in Euros, 12% were denominated in British pounds and 1% were denominated in Brazilian reais. If the value of the dollar appreciates relative to the value of these other currencies, the U.S. dollar value of the revenues that we report on our financial statements could be materially adversely affected. Changes in currency exchange rates could adversely affect our reported revenues and could require us to reduce our prices to remain competitive in foreign markets, which could also have a material adverse effect on our results of operations. Further, we incur costs in multiple currencies that are different than, or in a proportion different to, the currencies in which we receive our revenues. Accordingly, if the currencies in which we incur a large portion of our costs appreciate in value against the currencies in which we receive a large portion of our revenue, our margins could be adversely affected. We have not historically hedged our exposure to changes in foreign currency exchange rates and, as a result, we could incur unanticipated losses.

We may have to pay tax on United States source income, which would reduce our earnings and cash flows.

Under the United States Internal Revenue Code of 1986, as amended, or the Code, 50% of the gross shipping income of our vessel owning or chartering for non-U.S. subsidiaries attributable to transportation that begins or ends, but that does not both begin and end, in the U.S. will be characterized as U.S. source shipping income. Such income will be subject to a 4% U.S. federal income tax without allowance for deduction, unless our subsidiaries qualify for exemption from tax under Section 883 of the Code and the Treasury Regulations promulgated thereunder, which became effective for our calendar year subsidiaries on January 1, 2005.

Our non-U.S. subsidiaries filed U.S. tax returns for 2004 and 2003 and took the position on those returns that they qualified for the exemption on their U.S. source shipping income under Section 883 based on the determination that more than 50% of their stock was beneficially owned by qualified shareholders. However, that claim for exemption by our non-U.S. subsidiaries may not prevail if challenged on audit. In the absence of the availability of the exemption for 2004 and 2003, our non-U.S. subsidiaries would be subject to a 4% federal income tax of approximately \$0 and



\$249,264, respectively. For the calendar years 2005 and 2006, our non-U.S. subsidiaries did not derive any U.S. source shipping income. Therefore our non-U.S. subsidiaries should not be subject to any U.S. federal income tax for either 2005 or 2006 regardless of their qualification for exemption under Section 883.

For the 2007 tax year and each tax year thereafter, we believe that any U.S. source shipping income of our non-U.S. subsidiaries will qualify for the exemption from tax under Section 883 on the basis that our stock is primarily and regularly traded on the Nasdaq. However, we cannot assure you that our non-U.S. subsidiaries will qualify for that exemption. In addition, changes in the Code, the Treasury Regulations or the interpretation thereof by the Internal Revenue Service or the courts could adversely affect the ability of our non-U.S. subsidiaries to qualify for such exemption. If our non-U.S. subsidiaries are not entitled to that exemption, they would be subject to a 4% U.S. federal income tax on their U.S. source shipping income. The imposition of this tax could have a negative effect on our business and would result in decreased earnings.

Changes in tax laws or the interpretation thereof and other tax matters related to our UK tonnage tax election may adversely affect our future results.

We elected the application of the UK tonnage tax instead of the corporate tax on income for the qualifying shipping activities of our PSVs in the North Sea. Changes in tax laws or the interpretation thereof and other tax matters related to our UK tax election may adversely affect our future results as a tax on the income from qualifying shipping activities likely will be higher than the UK tonnage tax to which are currently subject.

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## Risk factors

### Risks Relating to this Offering and Our Common Stock

The price of our common stock has been volatile and after this offering may continue to be volatile.

The market price of our common stock has historically fluctuated and may continue to fluctuate significantly. The price of our common stock after this offering may be volatile, and may fluctuate due to factors such as:

actual or anticipated fluctuations in quarterly and annual results;

mergers and strategic alliances in the shipping industry;

market conditions in the industry;

changes in government regulation;

our operating results falling short of those forecast by securities analysts;

announcements concerning us or our competitors;

the general state of the securities market; and

other developments affecting us, our industry or our competitors.

The market price for our common stock may be volatile. Consequently, you may not be able to sell shares of our common stock at prices equal to or greater than those paid by you in this offering.

The selling shareholders will control the outcome of matters on which our shareholders are entitled to vote following this offering.

The selling shareholders will own, directly or indirectly, approximately 28.0% of our outstanding common stock after this offering; 23.0% if the underwriters' over-allotment option is fully exercised. Each share of our common stock, when held by one of these shareholders, is entitled to seven votes while shares held by all other shareholders are entitled to one vote, which means the selling shareholders will control 73.1% of the voting power of our common stock; 67.7% if the underwriters' over-allotment option is fully exercised. This increased voting power gives our selling shareholders control over the outcome of matters on which shareholders are entitled to vote, including the election of directors, the adoption or amendment of provisions in our memorandum of association or articles of association and possible mergers, corporate control contests and other significant corporate transactions. Further, the selling shareholders are party to a shareholders agreement pursuant to which they have agreed to vote together on certain matters, including mergers and acquisitions. This concentration of voting power may have the effect of delaying, deferring or preventing a change in control, a merger, consolidation, takeover or other business combination. This concentration of voting power could also discourage a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, which could in turn have an adverse effect on the market price of our common stock. Finally, the interests of the selling shareholders may be different from your interests. For example, potentially contrary to your interests, the selling shareholders may resist attempts to change the current composition of the board of directors and attempts by outside third parties to gain control of or acquire our company. For information concerning our selling shareholders, see "Principal and selling shareholders."

You will experience immediate and substantial dilution as a result of this offering and may experience additional dilution in the future.

If you purchase common stock in this offering, you will pay more for your shares of common stock than the amounts paid by certain existing shareholders for their shares. At the offering price of \$19.00 per share you will incur immediate and substantial dilution of \$11.16 per share, representing the difference between the offering price and our net tangible book value per share at December 31, 2006, after giving effect to this offering. In addition, purchasers of our common stock in this offering will have contributed approximately 34% of the aggregate price paid by all purchasers of our common stock, but will own only approximately 15% of the shares outstanding after this offering. In addition, through our equity incentive plan or other plans or arrangements of ours, we may issue additional shares that will be dilutive.

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## Risk factors

We are not a United States corporation, and our shareholders may be subject to the uncertainties of a foreign legal system in protecting their interests.

Our corporate affairs are governed by our memorandum of association and articles of association, and by the corporate laws of The Bahamas. The corporate laws of The Bahamas may differ in material respects from the corporate laws in U.S. jurisdictions. Thus, our shareholders may have more difficulty protecting their interests in the face of actions by our management, directors or controlling shareholders than would shareholders of a corporation organized in a U.S. jurisdiction. It is unlikely that Bahamian courts would entertain original actions against Bahamian companies predicated solely upon U.S. federal securities laws. Furthermore, judgments based on any civil liability provisions of the U.S. federal securities laws are not directly enforceable in The Bahamas. Rather, a lawsuit must be brought in The Bahamas on any such judgment. Generally, a final judgment obtained in a court of competent jurisdiction is actionable in Bahamian courts and is impeachable only upon the grounds of fraud, public policy and natural justice. See “Bahamian company considerations.”

Future sales of shares could depress our stock prices.

Upon consummation of this offering, certain of our existing shareholders will own 9,363,366 shares, or approximately 28.0%, of our outstanding common stock, which may be resold subject to the volume, manner of sale and notice requirements of Rule 144 under the Securities Act of 1933. Unless sold to another existing shareholder, each share sold by such shareholders will have one vote per share in the hands of the buyer. Shares held by certain of our existing shareholders as well as our officers, directors and certain other shareholders will be subject to the underwriters’ lock-up agreement in which they have agreed not to dispose of any shares of common stock, subject to limited exceptions, for a period of 90 days after the date of this prospectus, without the consent of the underwriters. Following the expiration or waiver of the lock-up agreement, these share will be eligible for resale as described under the heading “Shares eligible for future sale” in this prospectus. Sales or the possibility of sales of substantial amounts of shares of our common stock by certain of our existing shareholders in the public markets could adversely affect the market price of our common stock in the future.

We have entered into a registration rights agreement with Inversiones Los Avellanos S.A., or Los Avellanos, Hazels (Bahamas) Investments, Inc., or Hazels, and Solimar, pursuant to which we granted them, and certain of their transferees, the right, under certain circumstances and subject to certain restrictions, including restrictions included in the lock-up agreements described above, to require us to register under the Securities Act shares of our common stock held by them. Under the registration rights agreement, Los Avellanos, Hazels and Solimar each have the right to request that we register the sale of shares held by it on its behalf and may require us to make available shelf registration statements permitting sales of shares into the market from time to time over an extended period. In addition, Los Avellanos, Hazels and Solimar have the ability to exercise certain piggyback registration rights in connection with registered offerings initiated by us. Also, Solimar will have certain rights to sell its shares exclusively during the three-year period following the first registration that meets certain specified criteria under the registration rights agreement, subject to the right of Los Avellanos and Hazels to sell a stated amount of shares. Registration of such shares under the Securities Act would, except for shares purchased by affiliates, result in such shares becoming freely tradable without restriction under the Securities Act immediately upon their sale pursuant to an effective registration statement. In addition, shares not registered pursuant to the registration rights agreement may, subject to the lock-up agreements described above, be resold pursuant to an exemption from the registration requirements of the Securities Act, including the exemptions provided by Rule 144 under the Securities Act. We refer you to the sections of this prospectus entitled “Related party transactions — Registration rights agreement,” “Shares eligible for future sale” and “Underwriting” for further information regarding the circumstances under which additional shares of our common stock

may be sold.

Anti-takeover provisions in our organizational documents could make it difficult for our shareholders to replace or remove our current board of directors or have the effect of discouraging, delaying or preventing a merger or acquisition, which could adversely affect the market price of our common stock.

Several provisions of our memorandum of association and articles of association could make it difficult for our shareholders to change the composition of our board of directors in any one year, preventing them from changing the composition of management. In addition, the same provisions may discourage, delay or prevent a merger or acquisition that shareholders may consider favorable.

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## Risk factors

These provisions include:

seven-to-one voting rights for shares held by our selling shareholders prior to October 12, 2006;

prohibiting cumulative voting in the election of directors; and

limiting the persons who may call special meetings of shareholders.

These anti-takeover provisions substantially impede the ability of public shareholders to benefit from a change in control and, as a result, may adversely affect the market price of our common stock and your ability to realize any potential change of control premium. In addition, our selling shareholders, Solimar, Los Avellanos and Hazels, are party to a shareholders agreement pursuant to which they have agreed to vote together on certain matters, including mergers and acquisitions of us that makes it more difficult for a third party to acquire us without the support of our board of directors and selling shareholders.

Investor confidence and the market price of our common stock may be adversely impacted if we are unable to comply with Section 404 of the Sarbanes-Oxley Act of 2002.

We are subject to Section 404 of the Sarbanes-Oxley Act of 2002, which requires us to include in our annual report on Form 20-F our management's report on, and assessment of the effectiveness of, our internal control over financial reporting. In addition, our independent registered public accounting firm will be required to attest to and report on management's assessment of the effectiveness of our internal control over financial reporting. We anticipate these requirements to apply first to our annual report for the fiscal year ending December 31, 2007. Any failure to comply with Section 404 could result in an adverse reaction in the financial marketplace due to a loss of investor confidence in the reliability of our financial statements, which ultimately could harm our business and could negatively impact the market price of our common stock. We believe the total cost of our initial compliance and the future ongoing costs of complying with these requirements may be substantial.

We may not pay any dividends.

We will make dividend payments to our shareholders only if our board of directors, acting in its sole discretion, determines that such payments would be in our best interest and in compliance with relevant legal and contractual requirements. The principal business factors that our board of directors expects to consider when determining the timing and amount of dividend payments will be our earnings, financial condition and cash requirements at the time. Currently, the principal contractual and legal restrictions on our ability to make dividend payments are those contained in the Indenture governing the Notes, our subsidiaries' loan agreements and those created by Bahamian law. Bahamian law generally prohibits the payment of dividends other than from surplus or while a company is insolvent or would be rendered insolvent upon the payment of such dividends. To date, we have paid no dividends.

We may incur other expenses or liabilities that would reduce or eliminate the cash available for distribution as dividends. We may also enter into new agreements or new legal provisions may be adopted that will restrict our ability to pay dividends.

U.S. tax authorities could treat us as a "passive foreign investment company," which could have adverse U.S. federal income tax consequences to U.S. holders.

A foreign corporation will be treated as a "passive foreign investment company," or PFIC, for U.S. federal income tax purposes if either (1) at least 75% of its gross income for any taxable year consists of certain types of "passive income" or (2) at least 50% of the average value of the corporation's assets produce or are held for the production of those types of "passive income." For purposes of these tests, "passive income" includes dividends, interest, and gains from the sale or exchange of investment property and rents and royalties other than rents and royalties which are received from unrelated parties in connection with the active conduct of a trade or business. For purposes of these tests, income derived from the performance of services does not constitute "passive income." U.S. shareholders of a PFIC are subject to a disadvantageous U.S. federal income tax regime with respect to the income derived by the PFIC, the distributions they receive from the PFIC and the gain, if any, they derive from the sale or other disposition of their shares in the PFIC.

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## Risk factors

Based on our proposed method of operation, we do not believe that we will be a PFIC with respect to any taxable year. In this regard, we intend to treat the gross income we derive or are deemed to derive from our period chartering activities as services income, rather than rental income. Accordingly, we believe that our income from our period chartering activities does not constitute "passive income," and the assets that we own and operate in connection with the production of that income do not constitute passive assets.

There is, however, no direct legal authority under the PFIC rules addressing our proposed method of operation. Accordingly, no assurance can be given that the U.S. Internal Revenue Service, or IRS, or a court of law will accept our position, and there is a risk that the IRS or a court of law could determine that we are a PFIC. Moreover, no assurance can be given that we would not constitute a PFIC for any future taxable year if there were to be changes in the nature and extent of our operations.

If the IRS were to find that we are or have been a PFIC for any taxable year, our U.S. shareholders will face adverse U.S. tax consequences. Under the PFIC rules, unless those shareholders make an election available under the Code (which election could itself have adverse consequences for such shareholders, as discussed below under "Tax considerations — United States federal income taxation of U.S. holders"), such shareholders would be liable to pay U.S.

federal income tax at the then prevailing income tax rates on ordinary income plus interest upon excess distributions and upon any gain from the disposition of our common stock, as if the excess distribution or gain had been recognized ratably over the shareholder's holding period of our common stock. See "Tax considerations — United States federal income taxation of U.S. holders" for a more comprehensive discussion of the U.S. federal income tax consequences to U.S. shareholders if we are treated as a PFIC.

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#### Forward-looking statements

Our disclosure and analysis in this prospectus concerning our operations, cash flows and financial position, including, in particular, the likelihood of our success in developing and expanding our business, include forward-looking statements. Statements that are predictive in nature, that depend upon or refer to future events or conditions, or that include words such as "expects," "anticipates," "intends," "plans," "believes," "estimates," "projects," "forecasts," "w" and similar expressions are forward-looking statements. Although these statements are based upon assumptions we believe to be reasonable based upon available information, including projections of revenues, operating margins, earnings, cash flow, working capital, and capital expenditures, they are subject to risks and uncertainties that are described more fully in this prospectus in the section titled "Risk factors." These forward-looking statements represent our estimates and assumptions only as of the date of this prospectus and are not intended to give any assurance as to future results. As a result, you should not place undue reliance on any forward-looking statements. We assume no obligation to update any forward-looking statements to reflect actual results, changes in assumptions or changes in other factors, except as required by applicable securities laws. Factors that might cause future results to differ include, but are not limited to, the following:

future operating or financial results;

pending or recent acquisitions, business strategy and expected capital spending or operating expenses, including drydocking and insurance costs;

general market conditions and trends, including charter rates, vessel values, and factors affecting vessel supply and demand;

our ability to obtain additional financing;

our financial condition and liquidity, including our ability to obtain financing in the future to fund capital expenditures, acquisitions and other general corporate activities;

our expectations about the availability of vessels to purchase, the time that it may take to construct new vessels, or vessels' useful lives;

our dependence upon the abilities and efforts of our management team;

changes in governmental rules and regulations or actions taken by regulatory authorities;

adverse weather conditions that can affect production of the goods we transport and navigability of the river system;

the highly competitive nature of the oceangoing transportation industry;

the loss of one or more key customers;

fluctuations in foreign exchange rates and devaluations;

potential liability from future litigation; and

other factors discussed in this section titled "Risk factors."

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#### Use of proceeds

We estimate the net proceeds to us of this offering will be approximately \$91.4 million after deducting the underwriters' discount and the estimated expenses payable by us related to this offering. These estimates are based on a public offering price of \$19.00 per share.

We expect to use the net proceeds of this offering in the following manner:

\$13.8 million to replace cash on hand used to fund the Otto Candies Acquisition, including related expenses;

\$43.3 million to fund construction costs of the two new PSVs being built in India, including \$8.7 million to replenish cash on hand used to fund the first advance under the construction contracts and \$34.6 million to be held as working capital to fund the balance of the construction costs;

\$12.0 million to fund the expansion of the capacity of our shipyard in the Hidrovia Region for construction of new barges; and

the remainder for general corporate purposes.

We will use some of the proceeds of this offering for general corporate or working capital purposes. See “Risk factors — Risks related to our company — We may use the proceeds of this offering for general corporate purposes with which you may not agree” for a discussion of the risks associated with our use of the proceeds.

We estimate that the net proceeds to the selling shareholders of this offering will be approximately \$106.6 million (\$136.3 million if the underwriters exercise their over-allotment option in full) after deducting the underwriters’ discounts but without regard to their expenses or any reimbursement thereof by the underwriters. We will not receive any proceeds of the offering received by the selling shareholders. See “Principal and selling shareholders.”

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#### Dividend policy

The payment of dividends is at the discretion of our board of directors, subject to certain limitations described in this prospectus under “Dividend policy.” We have not paid a dividend to date, and we anticipate retaining most of our future earnings, if any, for use in our operations and the expansion of our business. Any determination as to dividend policy will be made by our board of directors and will depend on a number of factors, including the requirements of Bahamian law, our future earnings, capital requirements, financial condition and future prospects, and such other factors as our board of directors may deem relevant. Bahamian law generally prohibits the payment of dividends other than from surplus, when a company is insolvent or if the payment of the dividend would render the company insolvent.

Our ability to pay dividends is restricted by the Notes, which we issued in 2004. In addition, we may incur expenses or liabilities, including extraordinary expenses, which could include costs of claims and related litigation expenses, or be subject to other circumstances in the future that reduce or eliminate the amount of cash that we have available for distribution as dividends or for which our board of directors may determine requires the establishment of reserves. The payment of dividends is not guaranteed or assured and may be discontinued at any time at the discretion of our board of directors. Because we are a holding company with no material assets other than the stock of our subsidiaries, our ability to pay dividends is dependent upon the earnings and cash flow of our subsidiaries and their ability to pay dividends to us. If there is a substantial decline in any of the markets in which we participate, our earnings will be negatively affected, thereby limiting our ability to pay dividends. We refer you to “Risk factors — Risks relating to our company — We cannot assure you that we will pay dividends” for a discussion of the risks related to our ability to pay dividends.



## Capitalization

The following table sets forth our consolidated capitalization at December 31, 2006:

on an actual basis;

as adjusted for certain subsequent events giving effect to (i) our repayment of \$25.3 million of our indebtedness owing to DVB NV, (ii) our incurrence of \$61.3 million of indebtedness under our loan agreement with DVB AG, (iii) our incurrence of \$13.6 million of indebtedness under our loan agreement with Natixis, (iv) our payment of \$15.3 million to fund the balance of the purchase price of our vessel Alejandrina, (v) our payment of \$8.7 million as the first advance for the construction of our PSVs in India, and (vi) our payment of \$13.8 million for the acquisition price and related expenses for the Otto Candies Acquisition; and

further adjusted to give effect to our issuance and sale of 5,096,078 shares of common stock in this offering at an offering price of \$19.00 per share, and the application of the net proceeds therefrom as described under “Use of proceeds.”

You should read this table in conjunction with the information in the sections entitled “Use of proceeds,” “Management’s discussion and analysis of financial condition and results of operations,” “Selected financial and other data” and “Description of credit facilities and other indebtedness” and our historical consolidated financial statements, together with the respective notes thereto, included elsewhere in this prospectus.

	At December 31, 2006		
	Actual	As Adjusted for Subsequent Events	As Adjusted for Subsequent Events and this Offering
	(Dollars in thousands)		
Cash and cash equivalents	\$20,648	\$ 32,412	\$ 77,209
Cash to fund remaining PSV construction costs in India	—	—	34,640
Total cash	20,648	32,412	111,849
Long term financial debts (including current portion)	38,994	13,694	13,694
2014 Senior Notes	180,000	180,000	180,000
New DVB bank loan	—	61,306	61,306
Natixis loan		13,616	13,616
Total debt <sup>(a)</sup>	218,994	268,616	268,616
Minority interest	3,091	3,091	3,091

## Shareholders' equity:

Common stock <sup>(b)</sup>	283	283	334
Additional paid-in capital <sup>(c)</sup>	173,826	173,826	265,212
Accumulated earnings (deficits)	5,231	5,231	5,231
Accumulated other comprehensive income	89	89	89
Total shareholders' equity	179,429	179,429	270,866
Total capitalization	\$401,514	\$ 451,136	\$ 542,573

(a)

The total debt amounts presented in this table do not include accrued interest, an item included in the calculation of total debt used elsewhere in this prospectus, amounting to \$1.7 million in Actual and each of the As Adjusted columns.

(b)

28,346,952 issued and outstanding shares, par value \$0.01, actual and as adjusted for subsequent events and 33,443,030 issued and outstanding shares as adjusted for subsequent events and this offering.

(c)

Estimated underwriting discounts and commissions and offering expenses of \$5.4 million have been deducted from the gross proceeds of the sale of shares pursuant to this offering.

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## Market price of our common stock

Our common stock began trading under the symbol "ULTR" on The Nasdaq Global Market on October 13, 2006. The following table shows the high and low closing prices for the common stock as reported by The Nasdaq Global Market for the periods indicated. These prices do not include retail markups, markdowns or commissions.

	High	Low
2007		
From January 1, 2007 to January 31, 2007	\$ 15.35	\$ 13.30
From February 1, 2007 to February 28, 2007	\$ 19.31	\$ 15.47
From March 1, 2007 to March 31, 2007	\$ 18.50	\$ 15.93
First Quarter	\$ 19.31	\$ 13.30
2006		
From October 13, 2006 to October 31, 2006	\$ 10.81	\$ 10.00
From November 1, 2006 to November 30, 2006	\$ 11.84	\$ 10.61
From December 1, 2006 to December 31, 2006	\$ 13.30	\$ 12.10
Fourth Quarter (from October 13, 2006)	\$ 13.30	\$ 10.00

On April 19, 2007, the last sale reported price on The Nasdaq Global Market for our common stock was \$19.62 per share, the high sale price was \$20.15 per share, and the low sale price was \$19.12 per share.

## Selected financial and other data

We derived the following selected financial information for Ultrapetrol (Bahamas) Limited for the year ended December 31, 2004 and as of and for the years ended December 31, 2005 and 2006 from our audited consolidated financial statements included elsewhere in this prospectus. We derived the following selected financial information for Ultrapetrol (Bahamas) Limited as of and for the years ended December 31, 2002 and 2003 and as of December 31, 2004, from our audited consolidated financial statements not included in this prospectus. The information below is selected information and should be read in conjunction with our historical financial statements and related notes, and our Management's Discussion and Analysis of Financial Condition and Results of Operations contained elsewhere in this prospectus. The historical results below and elsewhere in this prospectus may not be indicative of our future performance.

	Year ended December 31,				
	2002	2003	2004 <sup>(1)</sup>	2005	2006 <sup>(2)</sup>
	(Dollars in thousands)				
Statement of Operations Data:					
Revenues	\$73,124	\$75,233	\$95,160	\$125,361	\$173,466
Operating expenses <sup>(3)</sup>	(37,582 )	(41,303 )	(40,815 )	(73,061 )	(97,610 )
Depreciation and amortization	(24,807 )	(22,567 )	(18,688 )	(21,333 )	(28,340 )
Management fees to related parties <sup>(4)</sup>	(3,176 )	(2,863 )	(1,513 )	(2,118 )	(511 )
Administrative and commercial expenses	(3,642 )	(4,955 )	(7,494 )	(7,617 )	(13,905 )
Other operating income (expenses) <sup>(5)</sup>	1,741	(2,124 )	784	22,021	(198 )
Loss on involuntary conversion of Argentine receivables <sup>(6)</sup>	(2,704 )	—	—	—	—
Operating profit	2,954	1,421	27,434	43,253	32,902
Financial expense	(16,763 )	(16,207 )	(16,134 )	(19,141 )	(19,025 )
Financial gain (loss) on extinguishment of debt <sup>(7)</sup>	—	1,782	(5,078 )	—	(1,411 )
Financial income	326	201	119	1,152	733
Investment in affiliates <sup>(8)</sup>	(45 )	3,140	406	(497 )	588
Other income (expenses)	(43 )	(337 )	174	384	859
Income (loss) before income taxes and minority interest	(13,571 )	(10,000 )	6,921	25,151	14,646
Income taxes	(150 )	(185 )	(642 )	(786 )	(2,201 )
Minority interest <sup>(9)</sup>	(132 )	(1,333 )	(1,140 )	(9,797 )	(1,919 )
Net income (loss)	\$(13,853 )	\$(11,518 )	\$5,139	\$14,568	\$10,526
Basic net income (loss) per share	\$(0.89 )	\$(0.74 )	\$0.33	\$0.94	\$0.59
Diluted net income (loss) per share	\$(0.89 )	\$(0.74 )	\$0.33	\$0.94	\$0.58
Basic weighted average number of shares	15,500,000	15,500,000	15,500,000	15,500,000	17,965,753
Diluted weighted average number of shares	15,500,000	15,500,000	15,500,000	15,500,000	18,079,091
Balance Sheet Data (end of period):					
Cash and cash equivalents	\$4,724	\$8,248	\$11,602	\$7,914	\$20,648

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Current restricted cash	1,662	1,155	2,975	3,638	—
Working capital <sup>(10)</sup>	21,013	15,416	13,441	26,723	31,999
Vessels and equipment, net	134,797	120,803	160,535	182,069	333,191
Total assets	213,546	208,161	273,648	278,282	426,379
Total debt	168,994	155,814	220,413	211,275	220,685
Shareholders' equity	35,089	23,793	28,910	43,474	179,429
Other Financial Data:					
Ratio of Earnings to Fixed Charges <sup>(11)</sup>	N/A	N/A	1.3	2.3	1.6

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Selected financial and other data

(1)

In a series of related transactions, on April 23, 2004, through two wholly-owned subsidiaries, we acquired from American Commercial Barge Lines Ltd., or ACBL, the remaining 50% equity interest in UABL Limited, or UABL, that we did not previously own, along with a fleet of 50 river barges and seven river pushboats. The results of UABL's operations have been included in our consolidated financial statements since that date.

(2)

On March 21, 2006 we acquired an additional 66.67% of UP Offshore, which is the holding company for our Offshore Supply Business, raising our ownership to 94.45%. The results of UP Offshore's operations have been included in our consolidated financial statements since that date.

(3)

Operating expenses are voyage expenses and running costs. Voyage expenses, which are incurred when a vessel is operating under a contract of affreightment (as well as any time when they are not operating under time or bareboat charter), comprise all costs relating to a given voyage, including port charges, canal dues and fuel (bunkers) costs, are paid by the vessel owner and are recorded as voyage expenses. Voyage expenses also include charter hire payments made by us to owners of vessels that we have chartered in. Running costs, or vessel operating expenses, include the cost of all vessel management, crewing, repairs and maintenance, spares and stores, insurance premiums and lubricants and certain drydocking costs.

(4)

Management fees to related parties included payments to our related companies Ravenscroft Shipping (Bahamas) S.A., or Ravenscroft, and Oceanmarine S.A., or Oceanmarine, for ship management and administration services that they provide to us. We purchased the business of Ravenscroft and hired the administrative personnel and purchased the administrative related assets of Oceanmarine on March 21, 2006; accordingly, ship management and administration costs appear as in-house expenses in our 2006 results.

(5)

Other operating income in 2005 includes \$21.8 million gain from the sale of our Capesize bulk carrier, the Cape Pampas. This vessel was owned directly by Ultracape (Holdings) Ltd., or Ultracape, a company of which we owned

60%. Accordingly, the gain on sale attributable to the remaining 40% that we did not own is deducted from income as minority interest.

(6)

This relates to a loss resulting from the involuntary conversion of certain receivables from U.S. dollars to Argentine pesos. This conversion was the result of legislation passed by the Argentine government in January 2002. Under this legislation, U.S. dollar obligations between private parties due after January 6, 2002 were to be liquidated in Argentine pesos at a negotiated rate of exchange which reflects a sharing of the impact of the devaluation. Our settlement in Argentine pesos of the U.S. dollar denominated agreements was completed in 2002 and resulted in a loss of \$2.7 million.

(7)

During 2003, we repurchased \$6.7 million principal amount of our 10½% First Preferred Ship Mortgage Notes due 2008, or the Prior Notes for a price of \$4.8 million and realized a gain of \$1.8 million. During 2004, we repurchased \$5.7 million principal amount of our Prior Notes for a price of \$4.3 million and realized a gain of \$1.3 million, and we incurred \$6.4 million in expenses in relation to our tender offer and repurchase of our Prior Notes. During 2006, there was an early cancellation of our indebtedness in our River Business and we incurred a loss of \$1.4 million related to the unamortized balance of issuance costs.

(8)

Prior to April 2004, we owned 50% of UABL through a joint venture with ACBL and, accordingly, we accounted for it using the equity method. Also, prior to March 2006, we owned 27.78% of UP Offshore (Bahamas) Ltd. and, accordingly, we accounted for it using the equity method.

(9)

We own 60% of Ultracape, which owned the Capesize bulk carrier Cape Pampas prior to its sale in May 2005, and accordingly we recognized minority interest for the 40% we did not own. Figures in 2003 and 2004 principally represent 40% of the income earned by Ultracape, from operation of the Cape Pampas. The figure in 2005 represents 40% of the income from operations of the Cape Pampas as well as 40% of the gain on the sale of the vessel in May 2005. Minority interest in 2006 includes a loss of \$0.9 million incurred through redemption of the preferred shares issued by our subsidiary UP Offshore owned by IFC, which was part of the use of proceeds from our IPO.

(10)

Current assets less current liabilities.

(11)

For the purpose of calculating the ratio of earnings to fixed charges, earnings represents net income (loss) from continuing operations before income taxes and minority interest plus fixed charges less minority interest in the pre-tax income of subsidiaries that have not incurred fixed charges. Fixed charges consist of interest expense (including capitalized interest) on all indebtedness plus amortization of debt issuance costs and the portion of rental expense that we believe is representative of the interest component of rental expense. Earnings were insufficient to cover fixed charges in the years ended December 31, 2002 and 2003 by \$13,526 and \$13,140, respectively.

## Management's discussion and analysis of financial condition and results of operations

The following discussion should be read in conjunction with the information included under the caption "Selected financial and other data," our historical consolidated financial statements and their notes included elsewhere in this prospectus. This discussion contains forward-looking statements. For a discussion on the accuracy of these statements please refer to the section "Forward-looking Statements" that reflect our current views with respect to future events and financial performance. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as those set forth in the section entitled "Risk factors" and elsewhere in this prospectus.

### Our Company

We are an industrial shipping company serving the marine transportation needs of clients in the markets on which we focus. We serve the shipping markets for grain, forest products, minerals, crude oil, petroleum, and refined petroleum products, as well as the offshore oil platform supply market, and the leisure passenger cruise market through our operations in the following four segments of the marine transportation industry.

Our River Business, with 502 barges, is the largest owner and operator of river barges and pushboats that transport dry bulk and liquid cargos through the Hidrovia Region of South America, a large area with growing agricultural, forest and mineral related exports. This region is crossed by navigable rivers which flow through Argentina, Bolivia, Brazil, Paraguay and Uruguay, to ports serviced by ocean export vessels. According to DSC, as a whole, these countries are estimated to account for approximately 47% of world soybean production in 2006, from 29% in 1995.

Our Offshore Supply Business owns and operates vessels that provide critical logistical and transportation services for offshore petroleum exploration and production companies, in the North Sea and the coastal waters of Brazil. Our Offshore Supply Business fleet currently consists of proprietarily designed, technologically advanced platform supply vessels, or PSVs, including four in operation and four under construction. Two PSVs are under construction in Brazil and are contracted to be delivered in the second quarter of 2007 and in 2008, respectively. We recently contracted with a shipyard in India to construct two PSVs for delivery commencing in 2009, with an option to build two more.

Our Ocean Business owns and operates eight oceangoing vessels, including three Handysize/small product tankers that we intend to use in the South American coastal trade where we have preferential rights and customer relationships, three versatile Suezmax/Oil-Bulk-Ore, or Suezmax OBO, vessels, one Aframax tanker and one semi-integrated tug/barge unit. Our Ocean Business fleet has an aggregate capacity of approximately 651,000 dwt, and our three Suezmax OBOs are capable of carrying either dry bulk or liquid cargos, providing flexibility as dynamics change between these market sectors.

Our Passenger Business fleet consists of two vessels with a total carrying capacity of approximately 1,600 passengers, and operates primarily in the European cruise market. We currently employ our largest passenger vessel under a multi-year seasonal charter with a European tour operator and the other vessel will be employed in the Aegean Sea for

the European summer season of 2007. In addition, we have operated one of our vessels during periods outside the European travel season for certain events.

Our business strategy is to continue to operate as a diversified marine transportation company with an aim to maximize our growth and profitability while limiting our exposure to the cyclical behavior of individual sectors of the transportation industry.

#### Developments in 2005

On January 7, 2005, International Finance Corporation, or IFC, and KfW disbursed the remaining \$7.5 million of the \$30.0 million loan granted to UABL in 2002. These funds were used to finance the purchase and transportation from the United States to the Hidrovia Region of 35 dry barges. Additionally, we used existing funds to purchase two pushboats and other auxiliary equipment.

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#### Management's discussion and analysis of financial condition and results of operations

On March 4, 2005, we entered into a contract to sell our Capesize dry-bulk carrier, the Cape Pampas, owned through our 60% joint venture, Ultracape (Holdings) Ltd., or Ultracape, for \$37.9 million, net of the related expenses. The vessel was delivered to the new owners on May 6, 2005. This resulted in a net gain to us in 2005, after minority interest, of \$13.1 million. While we continually evaluate opportunities for sales of our vessels when we think the values are favorable for us and when such sales will not adversely affect our operations, we do not expect to record similar gains in every period, if at all.

On March 4, 2005, we entered into a contract to purchase the passenger vessel, New Flamenco, for a price of \$13.5 million. This transaction was consummated on March 24, 2005, and we continued her employment with a European tour operator during the European travel season. In November 2005, we commenced an extensive refurbishment of the passenger and public spaces.

On April 6, 2005, we purchased the passenger vessel World Renaissance, renamed Grand Victoria, at auction for a price of \$3.5 million. This vessel was delivered and fully paid for on April 19, 2005, but was not certified and did not enter service in 2005. This vessel has since been re-classified and refurbished and entered into service in 2006.

On April 29, 2005, we agreed to purchase the product tanker, Sun Chemist, renamed Miranda I, for a total price of \$10.3 million. The vessel was delivered and fully paid on July 7, 2005 and entered service in Argentina under a long-term charter with a major oil company in October 2005.

On July 25, 2005, our option to repurchase 25,212 of our shares from Los Avellanos for a total price of \$0.9 million was extended until July 25, 2006.

On October 7, 2005, we financed 90% of the acquisition cost of 11 barges in our River Business with \$2.9 million in funds available from restricted cash.

On December 1, 2005, we substituted barges TN1502, TN1503, TN1505 and TN1506 with barges ACL 700 and ACL 701 in the collateral pool securing the Notes. The substituted barges are newer and of a higher value than the original barges.

On December 28, 2005, we drew down \$3.0 million under the \$10.0 million facility provided by IFC to UABL Paraguay, one of our subsidiaries. These funds will be used primarily to increase the size and capacity of some of our existing barges.

#### Developments in 2006

On March 20, 2006, we purchased all of the issued and outstanding capital stock of Ravenscroft Shipping (Bahamas) S.A., or Ravenscroft, from two of our related parties, Crosstrade Maritime Inc., and Crosstrees Maritime Inc., for the purchase price of \$11.5 million. The purchase price included a building in Coral Gables, Florida, U.S., independently valued at \$4.5 million. Ravenscroft Shipping (Bahamas) S.A. is a holding company that is the ultimate parent of our vessel managers, Ravenscroft Ship Management Inc., which manages the vessels in our Ocean Business and Offshore Supply Business, and Elysian Ship Management Inc., which manages the vessels in our Passenger Business. The purchase price was paid in full with the proceeds of our IPO. In compliance with the requirements of our indenture related to the Notes, we obtained a fairness opinion from an internationally recognized accounting firm in connection with this acquisition.

On March 20, 2006, Los Avellanos and Avemar Holdings (Bahamas) Ltd., or Avemar, two of our shareholders, cancelled their agreement pursuant to which Avemar had previously granted Los Avellanos an irrevocable proxy to vote our shares owned by Avemar and agreed to cancel the shares owned by Avemar upon the closing of our IPO.

On March 20, 2006, we exercised our option to repurchase from Los Avellanos 25,212 shares of our common stock for a total consideration of \$0.9 million, and the \$0.9 million note originally issued in connection with the option was cancelled.

On March 21, 2006, we separately purchased 66.67% of the issued and outstanding capital stock of UP Offshore (Bahamas) Ltd., or UP Offshore, a company through which we operate our Offshore Supply Business, from an affiliate of Solimar, one of the selling shareholders, for a purchase price of \$48.0 million. Following this

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#### Management's discussion and analysis of financial condition and results of operations

acquisition, we hold 94.45% of the issued and outstanding shares of UP Offshore. The purchase price was paid in full with the proceeds of our IPO. In compliance with the requirements of our indenture related to the Notes, we obtained a fairness opinion from an internationally recognized accounting firm in connection with this acquisition.

On May 3, 2006, we signed an agreement with International Finance Corporation, or IFC, to purchase from IFC the 7.14% of UP River (Holdings) Ltd., or UP River, an entity that owned the 50% of UABL Limited that we did not own, for the price of \$6.2 million. As part of this agreement, IFC agreed to waive its option to convert its interest in UP River to shares in our company and its right to participate in our IPO. Our obligation under this agreement was paid from proceeds of our IPO.

On August 8, 2006, we took delivery of the fourth PSV in our Offshore Supply Business fleet, UP Topazio, from EISA — Estaleiro Ilha S.A. in Rio de Janeiro, Brazil.

On September 8, 2006, we entered into a Memorandum of Agreement with the Argos Group to form a joint venture to establish a river transportation company on the Magdalena River in Colombia.

On October 18, 2006, we completed our IPO. The gross proceeds of our IPO to us were \$137.5 million.



On October 20, 2006, UP Offshore (Bahamas) Ltd. redeemed all of the outstanding Series A Preferred Shares held by IFC for an amount of \$4.3 million with proceeds from our IPO.

On October 23, 2006, we signed a Memorandum of Agreement to purchase the Rea (which we renamed Amadeo), a 39,350 dwt. crude oil and product tanker for a purchase price of \$19.1 million. On December 1, 2006 we took delivery of the Amadeo and took her to a yard in Romania where she is undergoing conversion to double hull prior to her employment in the South American cabotage trade.

On October 31, 2006, we announced in Athens, Greece, that one of our subsidiaries in the Passenger Business would employ our vessel Grand Victoria (to be renamed Blue Monarch) on 7-day cruises in Greece and Turkey. Monarch Classical Cruises will be responsible for the marketing of these cruises, and the Blue Monarch will not have a guaranteed minimum income for the European Summer of 2007.

On November 10, 2006, the underwriters of our IPO exercised their over-allotment option to purchase from the selling shareholders in our IPO an additional 232,712 shares of our common stock. We did not receive any of the proceeds from the sale of shares by these shareholders in the over-allotment option.

On November 20, 2006, we signed a Memorandum of Agreement to purchase the Cadenza (which we renamed Alejandrina), a 9,210 dwt. oil tanker, for a purchase price of \$17.0 million.

On December 28, 2006, we entered into a \$61.3 million senior secured term loan agreement with DVB Bank AG to refinance our four PSVs currently in operation (UP Esmeralda, UP Safira, UP Agua-Marinha and UP Topazio), which was drawn down in two installments in January and March 2007, respectively. We used the proceeds from this loan primarily to pay off outstanding financings for these vessels and cash to fund our acquisition program.

## RECENT DEVELOPMENTS

On January 5, 2007, we took delivery of the Alejandrina and she was positioned for employment in the South American cabotage trade where she commenced service in March 2007.

On January 27, 2007, we entered into a \$13.6 million senior secured term loan agreement with Natixis as post delivery finance for the acquisition of the Alejandrina.

On February 21, 2007, we entered into two shipbuilding contracts with a shipyard in India to construct two PSVs with deliveries commencing in 2009. The price for each new PSV to be built in India is \$21.7 million.

On March 7, 2007, we executed a Stock Purchase Agreement and other complementary agreements with the Shareholders of Compañía Paraguaya de Transporte Fluvial S.A. ("CPTF") and Candies Paraguayan Ventures LLC ("CPV") whereby we purchased 100% of the stock of CPTF and CPV. Through the purchase of these two

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## Management's discussion and analysis of financial condition and results of operations

companies, we acquired ownership of one 4,500 HP pushboat (the Captain Otto Candies) and twelve Jumbo 2,500 dwt barges (the Paraná barges) all built in the United States in 1995. The total purchase price paid by us for the shares under the respective agreements was \$13.8 million.

## Factors Affecting Our Results of Operations

We organize our business and evaluate performance by the following business segments: the Ocean Business, River Business and, beginning in 2005, the Offshore Supply Business and Passenger Business. The accounting policies of the reportable segments are the same as those for the consolidated financial statements. We do not have significant intersegment transactions.

## Revenues

In our River Business, we contract for the carriage for cargos, in substantially all cases, under contracts of affreightment, or COAs. Most of these COAs currently provide for adjustments to the freight rate based on changes in the price of fuel.

In our Offshore Business, we contract substantially all of our capacity under time charters to charterers in the North Sea and Brazil. During the first quarter of 2006, prior to the acquisition of 66.67% of the stock of UP Offshore, the revenues and expenses of UP Offshore were not consolidated with ours. However, two PSVs owned by UP Offshore were operated by us in the North Sea under charters. The revenues of these charters were recognized in our financial statements.

In our Ocean Business, we contract our cargo vessels either on a time charter basis or COA basis. Some of the differences between time charters and COAs are summarized below.

### Time Charter

We derive revenue from a daily rate paid for the use of the vessel, and

the charterer pays for all voyage expenses, including fuel and port charges.

### Contract of Affreightment (COA)

We derive revenue from a rate based on tonnage shipped expressed in dollars per metric ton of cargo, and

we pay for all voyage expenses, including fuel and port charges.

Our ships on time charters generate both lower revenues and lower expenses for us than those under COAs. At comparable price levels both time charters and COAs result in approximately the same operating income, although the operating margin as a percentage of revenues may differ significantly.

The structure of our seasonal contracts for our Passenger Business provides us with a stable revenue stream as well as the flexibility to operate the vessels in other regions of the world at the end of the contract term. We have operated one of our vessels during periods outside the European travel season for certain events.

Time charter revenues accounted for 54% of the total revenues from our businesses for 2006, and COA revenues accounted for 46%. With respect to COA revenues in 2006, 77% were in respect of repetitive voyages for our regular customers and 23% were in respect of single voyages for occasional customers.

In our River Business, demand for our services is driven by agricultural, mining and forestry activities in the Hidrovia Region. Droughts and other adverse weather conditions, such as floods, could result in a decline in production of the agricultural products we transport, which would likely result in a reduction in demand for our services. In 2005, our results of operations were negatively impacted due to the decline in soybean production associated with that year's drought. Continuing drought conditions have also affected the size of the Paraguayan soybean crop in 2006. Further, most of the operations in our River Business occur on the Parana and Paraguay Rivers, and any changes adversely affecting navigability of either of these rivers, such as low water levels, could reduce or limit our ability to effectively transport cargo on the rivers.

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#### Management's discussion and analysis of financial condition and results of operations

In our Ocean Business, we employed a significant part of our ocean fleet on time charter to different customers during 2006. In the first half of 2006, the international dry bulk freight market maintained average rates below those experienced in the first half of 2005. However, in the second half of 2006, those average freight rates generally increased above the levels experienced in the same period of 2005.

In our Passenger Business, demand for our services is driven primarily by movements of tourists during the European summer cruise season.

#### Expenses

Our operating expenses generally include the cost of all vessel management, crewing, spares and stores, insurance, lubricants, repairs and maintenance. Generally, the most significant of these expenses are repairs and maintenance, wages paid to marine personnel, catering and marine insurance costs. However, there are significant differences in the manner in which these expenses are recognized in the different segments in which we operate.

In addition to the vessel operating expenses, our other primary operating expenses in 2006 included general and administrative expenses related to ship management and administrative functions. During the first quarter of 2006, we acquired Ravenscroft and the administrative-related assets and personnel of Oceanmarine. Accordingly, going forward we do not expect to pay significant fees to any third party for ship management and administrative functions.

In our River Business, our voyage expenses include port expenses and bunkers as well as charter hire paid to third parties.

In our Offshore Supply Business, voyage expenses include offshore and brokerage commissions paid by us to third parties including Gulf Offshore North Sea (UK) which provide brokerage services.

In our Passenger Business, operating expenses include all vessel management, crewing, stores, insurance, lubricants, repairs and maintenance, catering, housekeeping and entertainment staff. Voyage expenses may include port expenses and bunkers if such services are for our account. Similarly, they may include the cost of food and beverages if such amounts are for our account under the charter agreement.

Through our River Business, we own a floating drydock and a repair facility for our river fleet at Pueblo Esther, Argentina, land for the construction of two terminals in Argentina and 50% joint venture participations in two grain loading terminals in Paraguay. UABL also rents offices in Asuncion, Paraguay, and Buenos Aires, Argentina, and a repair and shipbuilding facility in Argentina.

Through our acquisition of UP Offshore, we now hold a lease for office space in Rio de Janeiro, Brazil. In addition, through our recent acquisition of Ravenscroft, we own a building located at 3251 Ponce de Leon Boulevard, Coral Gables, Florida, United States. Through our acquisition of the administrative functions of Oceanmarine, a related party, we now hold a sublease to an office in Buenos Aires, Argentina.

#### Foreign Currency Transactions

During 2006, 77% of our revenues were denominated in U.S. dollars. Also, for the year ended December 31, 2006, 10% of our revenues were denominated and collected in Euros, 12% of our revenues were denominated and collected in British Pounds and 1% of our revenues was denominated and collected in Reais (Brazil). However, 14% of our total revenues were denominated in U.S. dollars but collected in Argentine Pesos, Brazilian Reais and Paraguayan Guaranies. Significant amounts of our expenses were denominated in U.S. dollars and 31% of our total out of pocket operating expenses were paid in Argentine Pesos, Brazilian Reais and Paraguayan Guaranies.

Our operating results, which we report in U.S. dollars, may be affected by fluctuations in the exchange rate between the U.S. dollar and other currencies. For accounting purposes, we use U.S. dollars as our functional currency. Therefore, revenue and expense accounts are translated into U.S. dollars at the average exchange rate prevailing during the month of each transaction.

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#### Management's discussion and analysis of financial condition and results of operations

##### Inflation and Fuel Price Increases

We do not believe that inflation has had a material impact on our operations, although certain of our operating expenses (e.g., crewing, insurance and drydocking costs) are subject to fluctuations as a result of market forces.

In 2005 and prior, in our River Business, we adjusted the fuel component of our cost into the freights on a seasonal or yearly basis, and therefore we were adversely affected during that particular period by rising bunker prices which are only partially offset by a hedge of a minor part of our fuel consumption and by bunker price adjustment formulas in some of our contracts. In 2006 and thereafter, we have negotiated fuel price adjustment clauses in most of our contracts.

In the Offshore Supply and Passenger Businesses, the risk of variation of fuel prices under the vessels' current employment is generally borne by the charterers, since the charterers are generally responsible for the supply of fuel.

In our Ocean Business, inflationary pressures on bunker (fuel oil) costs are not expected to have a material effect on our immediate future operations, because our vessels are currently chartered to third parties and it is the charterers' responsibility to pay for fuel. When our ocean vessels are employed under COAs, freight rates for voyage charters are generally sensitive to the price of a vessel's fuel. However, a sharp rise in bunker prices may have a temporary negative effect on results since freights generally adjust only after prices settle at a higher level.

##### Seasonality

Each of our businesses has seasonal aspects, which affect their revenues on a quarterly basis. The high season for our River Business is generally between the months of March and September, in connection with the South American harvest and higher river levels. However, growth in the soy pellet manufacturing, minerals and forest industries may help offset some of this seasonality. The Offshore Supply Business operates year-round, particularly off the coast of

Brazil, although weather conditions in the North Sea may reduce activity from December to February. In the Ocean Business, demand for oil tankers tends to be strongest during the winter months in the Northern hemisphere. Demand for drybulk transportation tends to be fairly stable throughout the year, with the exceptions of the Chinese New Year in our first quarter and the European summer holiday season in our third quarter, which generally show lower charter rates. Under existing arrangements, our Passenger Business currently generates its revenue during the European cruise season, which runs from May through October of each year.

#### Legal Proceedings

Ultrapetrol S.A. was involved in a customs dispute with the Brazilian Customs Tax Authorities over the alleged infringement of customs regulations by the Alianza G-3 and Alianza Campana (collectively, the “Alianza Campana”) in Brazil during 2004. As a result, the Brazilian Customs Tax Authorities commenced an administrative proceeding and applied the penalty of apprehension against the Alianza Campana, which required the Alianza Campana to remain in port or within a maximum of five nautical miles from the Brazilian maritime coast. The maximum customs penalty that could be imposed would be confiscation of the Alianza Campana, which is estimated by the Brazilian Customs Tax Authorities to be valued at \$4.56 million. The Secretary of Brazilian Federal Revenue (“Secretary”) decided to cancel the penalty of confiscation of the Alianza Campana by means of a decision issued on August 14, 2006. However, the Secretary conditioned his decision on the compliance with the following requirements: (1) the classification of the Alianza Campana under the Regime Aduaneiro Especial para A Industria do Petroleo, or REPETRO, regime and, if such classification is confirmed; (2) the payment by Ultrapetrol S.A. of a penalty in the amount of one percent (1%) of the customs value of the Alianza Campana, or \$45,600.

In order to comply with the above described requirements, our customer, Petróleo Brasileiro S.A. (“Petrobrás”), presented on September 15, 2006, a formal request to obtain from Brazilian Customs Tax Authorities the recognition of the classification of the Alianza Campana under the REPETRO regime, which has since been received. We subsequently paid the penalty mentioned above, with the effect that the confiscation penalty was automatically canceled and the administrative proceeding was finalized with no further consequences to us.

On September 21, 2005, the local Customs Authority of Ciudad del Este, Paraguay issued a finding that certain UABL entities owe taxes to that authority in the amount of \$2.2 million, together with a fine for non-payment

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#### Management’s discussion and analysis of financial condition and results of operations

of the taxes in the same amount, in respect of certain operations of our River Business for the prior three-year period. This matter was referred to the Central Customs Authority of Paraguay (the “Paraguayan Customs Authority”). We believe that this finding is erroneous and UABL has formally replied to the Paraguayan Customs Authority contesting all of the allegations upon which the finding was based.

After review of the entire case, the Paraguayan Central Tax Authorities who have jurisdiction over the matter have confirmed we have no liability with respect to two of the three matters at issue, while they held a dissenting view on the third issue. Through a resolution which was provided to UABL on October 13, 2006, the Paraguayan Undersecretary for Taxation has confirmed that, in his opinion, we are liable for a total of approximately \$0.5 million and has applied a fine of 100% of this amount. On November 24, 2006, the court confirmed that UABL is not liable for the first two issues. We have entered a plea with the respective court contending the interpretation on the third issue where we claim to be equally non liable. We have been advised by UABL’s counsel in the case that there is only a remote possibility that a court would find UABL liable for any of these taxes or fines.

On November 3, 2006, the Bolivian Tax Authority (Departamento de Inteligencia Fiscal de la Gerencia Nacional de Fiscalizacion) issued a notice in the Bolivian press advising that UABL International S.A. (a Panamanian subsidiary of the Company) would owe taxes to that authority in the amount of approximately \$2.5 million (including interest), together with certain fines that have not been determined yet. We have not received notice of any claim. We believe that this finding is incorrect, and UABL International S.A. will formally reply to the Bolivian Tax Authority contesting the allegations of the finding when we are notified by the Bolivian Authorities. We have been advised by our local counsel in the case that there is only a remote possibility that UABL International S.A. would be found liable for any of these taxes or fines.

Various other legal proceedings involving us may arise from time to time in the ordinary course of business. However, we are not presently involved in any other legal proceedings that, if adversely determined, would have a material adverse effect on us.

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## Management's discussion and analysis of financial condition and results of operations

### Results of Operations

#### Year Ended December 31, 2006 Compared to Year Ended December 31, 2005

The following table sets forth certain historical income statement data for the periods indicated derived from our statements of income expressed in thousands of dollars.

	Year ended December 31,		Percent Change	
	2006	2005		
Revenues				
Attributable to River Business	\$79,124	\$54,546	45	%
Attributable to Offshore Supply Business	26,289	6,532	302	%
Attributable to Ocean Business	39,202	49,874	-21	%
Attributable to Passenger Business	28,851	14,409	100	%
Total revenues	173,466	125,361	38	%
Voyage expenses				
Attributable to River Business	(33,536 )	(25,710 )	30	%
Attributable to Offshore Supply Business	(3,451 )	(4,980 )	-31	%
Attributable to Ocean Business	(602 )	(1,371 )	-56	%
Attributable to Passenger Business	(5,856 )	(1,766 )	232	%
Total voyage expenses	(43,445 )	(33,827 )	28	%
Running cost				
Attributable to River Business	(20,595 )	(17,820 )	16	%
Attributable to Offshore Supply Business	(6,264 )	(1,218 )	414	%
Attributable to Ocean Business	(13,788 )	(12,636 )	9	%
Attributable to Passenger Business	(13,518 )	(7,560 )	79	%
Total running costs	(54,165 )	(39,234 )	38	%
Amortization of drydocking expense	(7,830 )	(6,839 )	14	%
Depreciation of vessels and equipment	(19,920 )	(14,494 )	37	%
Amortization of intangible assets	(590 )	—	—	

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Management fees and administrative and commercial expenses	(14,416 )	(9,735 )	48 %
Other operating income (expenses)	(198 )	22,021	—
Operating profit	32,902	43,253	–24 %
Financial expense	(19,025 )	(19,141 )	–1 %
Financial gain (loss) on extinguishment of debt	(1,411 )	—	—
Other income (expenses)	2,180	1,039	110 %
Total other expenses	(18,256 )	(18,102 )	1 %
Income before income taxes and minority interest	14,646	25,151	–42 %
Income taxes	(2,201 )	(786 )	180 %
Minority interest	(1,919 )	(9,797 )	–80 %
Net income	\$10,526	\$14,568	–28 %

Revenues. Total revenues from our River Business increased by 45% from \$54.5 million in 2005 to \$79.1 million in 2006. This increase is primarily attributable to a 19% increase in volumes transported and a 24% increase in unit prices.

Total revenues from our Offshore Supply Business increased from \$6.5 million in 2005 to \$26.3 million in 2006. This increase is attributable to higher time charter rates of our existing PSVs UP Esmeralda and UP Safira, as well as their being in service for a full year compared to less than half a year in 2005, and the operations of two new PSVs placed into service during 2006, UP Agua-Marinha and UP Topazio.

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Management's discussion and analysis of financial condition and results of operations

Total revenues from our Ocean Business decreased from \$49.9 million in 2005 to \$39.2 million in 2006, or a decrease of 21%. This decrease is mainly attributable to the lower time charter rates of Princess Nadia, Princess Susana and Princess Katherine, as well as the lesser number of operational days of the vessels in 2006 due to the fact that all three of the vessels underwent special survey and drydocking in the fourth quarter of 2006, partially offset by higher time charter rates of Princess Marina and a full year operation of the Miranda I, which had started operations in October 2005.

Total revenues from our Passenger Business were \$28.9 million in 2006, as compared to \$14.4 million in 2005. This 100% increase is mainly attributable to higher contractual revenue per passenger from, and a larger number of operational days for, our New Flamenco in 2006 and to the entry in operation of the Grand Victoria in 2006.

Voyage expenses. In 2006, voyage expenses of our River Business were \$33.5 million, as compared to \$25.7 million for 2005, an increase of \$7.8 million. The increase is mainly attributable to an increase in fuel expense due to a combination of larger volumes consumed consistent with the larger volumes of cargo carried and higher fuel prices.

In 2006, voyage expenses of our Offshore Supply Business were \$3.5 million, as compared to \$5.0 million in 2005. The decrease is primarily attributable to the effect of the bareboat charter paid for our new PSVs UP Esmeralda and UP Safira during the last six months of 2005 whereas the effect of those bareboat charters in 2006 occurred only in the first quarter prior to the consolidation of UP Offshore as well as the incurrence of \$1.0 million in expenses primarily related to the transport of these vessels from China, where they were constructed, to their deployment in the North Sea.

In 2006, voyage expenses of our Ocean Business were \$0.6 million, as compared to \$1.4 million for 2005. The decrease is primarily attributable to the decrease in brokerage commissions of our Princess Nadia, Princess Katherine

and Princess Susana.

In 2006, voyage expenses of our Passenger Business were \$5.9 million, as compared to \$1.8 million in 2005. The increase of \$4.1 million is mainly attributable to increased voyage expenses of our New Flamenco, consistent with the larger number of operational days and the entry into operation of our Grand Victoria in 2006.

**Running costs.** In 2006, running costs of our River Business were \$20.6 million, as compared to \$17.8 million in 2005, an increase of \$2.8 million. This increase is primarily attributable to higher boat costs due to an increased utilization of pushboats (approximately 1.5 extra pushboats per month) consistent with the larger volumes of cargo carried.

In 2006, running costs of our Offshore Supply Business were \$6.3 million, as compared to \$1.2 million in 2005. This increase is mainly attributable to the running cost incurred with the new PSVs UP Agua-Marinha and UP Topazio delivered to us in March and September 2006, respectively as well as a full year operation of our UP Esmeralda and UP Safira compared to less than half a year in 2005.

In 2006, running costs of our Ocean Business were \$13.8 million, as compared to \$12.6 million in 2005, an increase of 9%. This increase is mainly attributable to higher running costs on our Princess Susana and Princess Katherine, and Alianza G-3, and a full year operation of the Miranda I against only one quarter in 2005.

In 2006, running costs of our Passenger Business were \$13.5 million, compared to \$7.6 million in 2005. This increase is attributable to an increase in the running costs for the New Flamenco primarily due to a larger number of operating days in 2006, as well as the entry into operations of our Grand Victoria (which was recertified during 2005).

**Amortization of drydocking expense.** Amortization of drydocking and special survey costs increased by \$1.0 million, or 14%, to \$7.8 million in 2006 as compared to \$6.8 million in 2005. The increase is primarily attributable to the higher amortization of expenses for our Princess Marina, partially offset by the decrease in amortization due to the sale of our Cape Pampas in 2005.

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#### Management's discussion and analysis of financial condition and results of operations

**Depreciation of vessels and equipment.** Depreciation increased by \$5.4 million, or 37%, to \$19.9 million in 2006 as compared to \$14.5 million in 2005. This increase is primarily due to a full year depreciation for our Miranda I (which we purchased in September 2005), the increase in depreciation of some of our River Business equipment, increase in depreciation of our New Flamenco (which was fully refurbished between November 2005 and February 2006), the depreciation of our Grand Victoria after being recertified in 2005, and the consolidation of UP Offshore since March 2006.

**Amortization of intangible assets.** Amortization of intangible assets was \$0.6 million in 2006, as compared to \$0.0 million in 2005. This increase is attributable to the purchase of our subsidiary Ravenscroft in March 2006.

**Management fees and administrative and commercial expenses.** Management fees and administrative expenses were \$14.4 million in 2006 as compared to \$9.7 million in 2005. This increase of \$4.7 million is attributable mainly to an increase in the overhead expenses on our River Business and to the consolidation of UP Offshore since March 2006.

**Other operating income (expenses).** Other operating income (expenses) were expenses of \$0.2 million in 2006 as compared to income of \$22.0 million in 2005. This income change is attributable mainly to the effect of the sale of the



vessel Cape Pampas in 2005.

**Operating profit.** Operating profit for the year 2006 was \$32.9 million, a decrease of \$10.4 million from 2005. The difference is mainly attributable to the effect of the sale of the Cape Pampas in 2005, lower charter rates obtained by our three Suezmax OBOs, partially offset by higher operating profit from the Passenger Business and River Business, and by the consolidation of UP Offshore since March 2006.

**Financial expense.** Financial expense had no significant variation from \$19.0 million in 2006 as compared to \$19.1 million in 2005.

**Financial gain (loss) on extinguishment of debt.** Financial loss on extinguishments of debt for 2006 was \$1.4 million, as compared to \$0.0 million in 2005. This increase is mainly attributable to the loss recognized during the fourth quarter of 2006 in connection with the early repayment of our indebtedness related to our River Business with funds from our IPO.

**Minority interest.** Minority interest decreased by \$7.9 million to \$1.9 million in 2006 as compared to \$9.8 million in 2005. This variation is mainly attributable to 40% of the gain of the sale of the Cape Pampas in 2005 and partially offset by the consolidation of UP Offshore since March 2006 and \$0.9 million attributable to the premium paid on the early redemption of UP Offshore's preferred shares to IFC with funds from our IPO.

**Income taxes.** The charge for income taxes in 2006 was \$2.2 million, compared with \$0.8 million in 2005. The higher charge in 2006 compared with 2005 reflects the significantly higher operating income in our Offshore Supply Business (which is consolidated since March 2006) subject to the determination of taxable income in Chile and Brazil. Some of our income was subject to Chilean income tax due to a charter of two of our vessels to our Chilean subsidiary, which expired on January 31, 2007. The income from these vessels will no longer be subject to Chilean income taxes beginning February 1, 2007. In addition, our deferred income tax charge increased from excess accelerated tax depreciation over book depreciation and from unrealized foreign currency exchange gains on US dollar denominated debt of our Brazilian subsidiary, which is partially offset by the impact of the tax rate on the intangible amortization.

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## Management's discussion and analysis of financial condition and results of operations

### Year Ended December 31, 2005 Compared to Year Ended December 31, 2004

The following table sets forth certain historical income statement data for the periods indicated derived from our statements of income expressed in thousands of dollars.

	Year ended December 31,		Percent Change	
	2005	2004		
Revenues				
Attributable to River Business	\$54,546	\$41,111	33	%
Attributable to Offshore Supply Business	6,532	—	—	
Attributable to Ocean Business	49,874	54,049	-8	%
Attributable to Passenger Business	14,409	—	—	
Total revenues	125,361	95,160	32	%

Voyage expenses				
Attributable to River Business	(25,710 )	(15,340 )	68	%
Attributable to Offshore Supply Business	(4,980 )	—	—	
Attributable to Ocean Business	(1,371 )	(583 )	135	%
Attributable to Passenger Business	(1,766 )	—	—	
Total voyage expenses	(33,827 )	(15,923 )	112	%
Running costs				
Attributable to River Business	(17,820 )	(12,512 )	42	%
Attributable to Offshore Supply Business	(1,218 )	—	—	
Attributable to Ocean Business	(12,636 )	(12,380 )	2	%
Attributable to Passenger Business	(7,560 )	—	—	
Total running costs	(39,234 )	(24,892 )	58	%
Amortization of drydocking expense	(6,839 )	(5,195 )	32	%
Depreciation of vessels and equipment	(14,494 )	(13,493 )	7	%
Management fees and administrative and commercial expenses	(9,735 )	(9,007 )	8	%
Other operating income	22,021	784	2,709	%
Operating profit	43,253	27,434	58	%
Financial expense	(19,141 )	(16,134 )	19	%
Financial gain (loss) on extinguishment of debt	—	(5,078 )	—	
Other income (expenses)	1,039	699	49	%
Total other expenses	(18,102 )	(20,513 )	-12	%
Income before income taxes and minority interest	25,151	6,921	263	%
Income taxes	(786 )	(642 )	22	%
Minority interest	(9,797 )	(1,140 )	759	%
Net Income	\$14,568	\$5,139	183	%

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## Management's discussion and analysis of financial condition and results of operations

**Revenues.** Total revenues from our River Business increased by 33% from \$41.1 million in 2004 to \$54.5 million in 2005. This increase is primarily attributable to the consolidation of UABL since the second quarter of 2004, while in the first quarter of 2004 revenues from our river fleet only included the net charter proceeds which we received from chartering some of our vessels from UABL.

Total revenues from our Offshore Supply Business increased from \$0.0 million in 2004 to \$6.5 million in 2005. This increase is attributable to the time charter revenues of our new PSVs UP Esmeralda and UP Safira, which we operated temporarily under a bareboat charter by our subsidiary Corporación de Navegación Mundial S.A. during the last six months of 2005.

Total revenues from our Ocean Business decreased from \$54.0 million in 2004 to \$49.9 million in 2005, or a decrease of 8%. This decrease is attributable to the sale of the Cape Pampas in May 2005 and the lower time charter rate of the Princess Susana. These decreases were partially offset by the higher time charter rates of the Princess Nadia and the Princess Katherine during the first six months of 2005 and by the revenues generated by our newly acquired vessel, Miranda I, in the fourth quarter of 2005.

Total revenues from our Passenger Business were \$14.4 million in 2005. We did not earn revenues in our Passenger Business in 2004. We did not operate any passenger vessels in 2004. The new revenue is attributable to the effect of

the revenues of the New Flamenco, which was acquired and first placed in service during 2005.

**Voyage expenses.** In 2005, voyage expenses of our River Business were \$25.7 million, as compared to \$15.3 million for 2004, an increase of \$10.4 million. The increase is attributable to the consolidation of UABL as our subsidiary in the second quarter of 2004 and the increase of the price of fuel oils.

In 2005, voyage expenses of our Offshore Supply Business were \$5.0 million, as compared to \$0.0 million in 2004. The increase is primarily attributable to the bareboat charter of \$4.0 million paid for our new PSVs UP Esmeralda and UP Safira during the last six months of 2005 as well as the incurrence of \$1.0 million in expenses primarily related to the transport of these vessels from China, where they were constructed, to their deployment in the North Sea.

In 2005, voyage expenses of our Ocean Business were \$1.4 million, as compared to \$0.6 million for 2004. The increase is primarily attributable to higher brokerage commissions partially offset by a decrease primarily attributable to the voyage expenses of the Princess Eva, which was sold during 2004.

In 2005, voyage expenses of our Passenger Business were \$1.8 million. We did not operate any passenger vessels in 2004.

**Running costs.** In 2005, running costs of our River Business were \$17.8 million, as compared to \$12.5 million in 2004, an increase of \$5.3 million. The increase is primarily attributable to the effect of the consolidation of UABL as our subsidiary since the second quarter of 2004.

In 2005, running costs of our Offshore Supply Business were \$1.2 million, as compared to \$0.0 million in 2004. This increase is attributable to the running cost incurred with the new PSVs UP Esmeralda and UP Safira owned by UP Offshore and operated temporarily by our subsidiary Corporación de Navegación Mundial S.A. under a bareboat charter during the second half of 2005.

In 2005, running costs of our Ocean Business were \$12.6 million, as compared to \$12.4 million in 2004, an increase of 2%. This increase is mainly attributable to the operation of our newly acquired vessel Miranda I and was partially offset by the decrease of running cost attributable to the sale of the vessels Princess Eva in 2004 and by the sale of the Cape Pampas in 2005.

In 2005, running costs of our Passenger Business were \$7.6 million, compared to \$0.0 million in 2004. This increase is attributable to the effect of the running cost of our vessel New Flamenco, which we acquired in 2005. We did not operate any passenger vessels in 2004.

**Amortization of drydocking.** Amortization of drydocking and special survey costs increased by \$1.6 million, or 32%, to \$6.8 million in 2005 as compared to \$5.2 million in 2004. The increase is primarily attributable to

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Management's discussion and analysis of financial condition and results of operations

the amortization expenses of the vessels Alianza G-3, Princess Katherine, Princess Susana and Princess Nadia and the increase in the numbers of vessels in our river fleet, partially offset by the decrease of amortization of drydocking expense attributable to the sale of the vessels Princess Eva in 2004 and Cape Pampas in 2005.

**Depreciation of vessels and equipment.** Depreciation increased by \$1.0 million, or 7%, to \$14.5 million in 2005 as compared to \$13.5 million in 2004. This increase is primarily due to the purchase of new tugs and river barges, the

additional passenger vessel New Flamenco as well as the depreciation of the UABL fleet attributable to the effect of the consolidation of UABL as our subsidiary, which was partially offset by the sale of the vessels Princess Eva in 2004 and Cape Pampas in 2005.

Management fees and administrative expenses. Management fees and administrative expenses were \$9.7 million in 2005 as compared to \$9.0 million in 2004. This increase of \$0.7 million is attributable mainly to an increase in the overhead expenses produced by the consolidation of UABL and the management fees attributable to the new passenger vessel.

Other operating income (expenses). Other operating income was \$22.0 million in 2005 as compared to \$0.8 million in 2004. This increase is attributable to the effect of the sale of the vessel Cape Pampas in 2005.

Operating profit. Operating profit for the year 2005 was \$43.3 million, an increase of \$15.9 million from 2004. The difference is mainly attributable to the effect of the sale of the Cape Pampas in 2005, higher charter rates obtained for the vessel Princess Nadia, the sale of the vessels Princess Marisol and Princess Laura in 2004, as well as the results attributable to our new passenger vessel, partially offset by a decrease in our River Business results.

Financial expense. Financial expense increased by \$3.0 million or 19%, to \$19.1 million in 2005 as compared to \$16.1 million in 2004. This variation is mainly attributable to the higher level of financial debt related to the acquisition of our new vessels, as well as an increase in the interest rate of our variable rate debt in our River Business.

Financial gain (loss) on extinguishment of debt. In 2004, we recognized a gain of \$1.3 million from repurchases of our Prior Notes and paid \$6.4 million in expenses in connection with our tender offer and repurchase of our Prior Notes.

Minority interest. Minority interest increased by \$8.7 million to \$9.8 million in 2005 as compared to \$1.1 million in 2004. This variation is mainly attributable to 40% of the gain of the sale of the Cape Pampas in 2005.

#### Liquidity and Capital Resources

We are a holding company and operate in a capital-intensive industry requiring substantial ongoing investments in revenue producing assets. Our subsidiaries have historically funded their vessel acquisitions through a combination of bank indebtedness, shareholder loans, cash flow from operations and equity contributions.

The ability of our subsidiaries to make distributions to us may be restricted by, among other things, restrictions under our credit facilities and applicable laws of the jurisdictions of their incorporation or organization.

At December 31, 2006, we had aggregate indebtedness of \$220.7 million, consisting of \$180.0 million aggregate principal amount of our First Preferred Ship Mortgage Notes due 2014, or the Notes, and indebtedness of our new subsidiary UP Offshore of \$39.0 million under two senior loan facilities with DVB NV and DVB Bank AG, plus accrued interest of \$1.7 million.

At December 31, 2006, we had cash and cash equivalents on hand of \$20.6 million.

As a result of the early repayment of our indebtedness related to our River Business and the early redemption of UP Offshore's preferred shares held by IFC paid with funds from proceeds of our IPO, we incurred a loss of \$2.3 million that was recorded in the fourth quarter of 2006.

On December 28, 2006, we entered into a \$61.3 million senior secured term loan agreement with DVB Bank AG. We drew on this facility in January and March 2007 to its full amount primarily to pay off outstanding indebtedness for

our PSVs in an amount of \$25.3 million and to fund our acquisition program.

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## Management's discussion and analysis of financial condition and results of operations

On January 24, 2007, we entered into a \$13.6 million senior secured term loan agreement with Natixis as post delivery financing for the acquisition of the Alejandrina.

### Operating Activities

During the year ended December 31, 2006, we generated \$28.8 million in cash flow from operations compared to \$16.7 million in the year ended December 31, 2005. Net income for the year ended December 31, 2006 was \$10.5 million as compared to \$14.6 million in the year ended December 31, 2005, a decrease of \$4.1 million.

The increase in cash flow from operations is mainly attributable to higher income from operations, excluding depreciation, amortization and the gain on sale of assets, offset somewhat by greater working capital needs.

### Investing Activities

During the year ended December 31, 2006, we disbursed \$10.2 million to refurbish the New Flamenco and to recertify and recommission the Grand Victoria, \$9.7 million to enlarge and refurbish barges and pushboats as well as to purchase a new crane and associated equipment in our River Business, and \$9.0 million in respect of PSV vessels under construction, \$1.8 million on double hull works for the Miranda I, \$1.8 million as an advance for the purchase of the Alejandrina and \$20.2 million to purchase the Amadeo.

In addition, in 2006, we disbursed \$65.2 million (net of \$0.5 million cash acquired) for the acquisition of 66.67% of UP Offshore, all of the shares of Ravenscroft and the minority interest in our River Business.

In 2005, we received net proceeds of \$37.9 million from the Cape Pampas sale.

### Financing Activities

Net cash provided by financing activities was \$88.0 million during the year ended December 31, 2006, compared to net cash provided by financing activities of \$6.4 million during the year ended December 31, 2005. The increase in cash provided by financing activities from 2005 to 2006 is mainly attributable to the net proceeds of our IPO for \$125.2 million when partially offset by the repayment of principal of our outstanding debt in our River and Offshore Supply Business of \$33.1 million, the early redemption of UP Offshore's preferred shares to IFC of \$4.3 million and \$2.6 million in cash used for the retirement of minority interests in our subsidiary Ultracape (Holdings) Ltd.

### Future Capital Requirements

Our near-term cash requirements are related primarily to funding operations, constructing new vessels, potentially acquiring second-hand vessels, increasing the size of many of our barges and replacing the engines in our line pushboats with new engines that burn less expensive heavy fuel oil. We currently estimate that the construction of new vessels that are currently on order in India will require additional funds of approximately \$34.6 million (which we intend to pay out of the proceeds of this offering), the cost of increasing the size of many of our barges will cost approximately \$30.0 million and the cost of replacing the engines in our line pushboats will cost approximately \$46.0 million. In addition, amounts are to be paid in connection with the construction of our PSVs in Brazil. In

addition, we expect to pay approximately \$12.0 million out of the proceeds of this offering to expand the capacity of our shipyard in the Hidrovia Region to adequately equip it to build new barges. We will also make capital expenditures to fund the building of these new barges beginning in 2008. These expenses will be incurred at various times over the next few years and, accordingly, are subject to significant uncertainty. We expect to fund the construction of new vessels currently on order in part through the proceeds of this offering. We may in the future incur indebtedness to fund some of our other initiatives, which we are currently funding through our cash flow from operations. We cannot provide assurance that our actual cash requirements will not be greater than we currently expect. If we cannot generate sufficient cash flow from operations, we may obtain additional sources of funding through capital market transactions, although it is possible these sources will not be available to us.

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Management's discussion and analysis of financial condition and results of operations

**TABULAR DISCLOSURE OF CONTRACTUAL OBLIGATIONS**

The following table summarizes our contractual obligations and commercial commitments as of December 31, 2006.

The amounts below include both principal and interest payments.

	Payments due by period				
	Total	Current <sup>(a)</sup>	Two to three years <sup>(b)</sup>	Four to five years <sup>(c)</sup>	After five years <sup>(d)</sup>
(Dollars in thousands)					
1. Long-term debt obligations <sup>(e)</sup>					
– DVB Bank of America NV					
• Tranche A (UP Offshore Panama)	\$23,300	\$1,800	\$3,600	\$3,600	\$14,300
• Tranche B (UP Offshore Panama)	2,000	1,333	667	—	—
– DVB Bank AG					
• Tranche A (UP Offshore Apoio)	12,250	900	1,800	1,800	7,750
• Tranche B (UP Offshore Apoio)	1,444	667	777	—	—
–9% First Preferred Ship Mortgage Notes due 2014	180,000	—	—	—	180,000
Total long-term debt obligations	218,994	4,700	6,844	5,400	202,050
Estimated interest on contractual debt obligation <sup>(f)</sup>					
–DVB Bank of America NV					
• Tranche A (UP Offshore Panama)	9,774	1,639	2,886	2,365	2,884
• Tranche B (UP Offshore Panama)	133	114	19	—	—
–DVB Bank AG					
• Tranche A (UP Offshore Apoio)	4,979	787	1,397	1,155	1,640
• Tranche B (UP Offshore Apoio)	108	76	32	—	—
– 9% First Preferred Ship Mortgage Notes due 2014	129,600	16,200	32,400	32,400	48,600
Total estimated interest on contractual debt obligation	144,594	18,816	36,734	35,920	53,124
2. Operating lease obligations	2,062	568	945	321	228
3. Purchase obligations					
– Fuel supply contract <sup>(g)</sup>	12,000	12,000	—	—	—
– Vessel construction	14,000	11,600	2,400	—	—
	26,000	23,600	2,400	—	—
Total contractual obligations	\$391,650	\$47,684	\$46,923	\$41,641	\$255,402

(a)

Represents the period from January 1, 2007 through December 31, 2007.

(b)

Represents the period from January 1, 2008 through December 31, 2009.

(c)

Represents the period from January 1, 2010 through December 31, 2011.

(d)

Represents the period after December 31, 2011.

(e)

Represents principal amounts due on outstanding debt obligations, current and long-term, as of December 31, 2006. Amount does not include interest payments.

The interest rate and term assumptions used in these calculations are contained in the following table:

	Obligation	Principal at December 31, 2006 (Dollars in thousands)	Interest rate	Period From – To
DVB Bank of America NV				
	Tranche A (UP Offshore Panama)	\$ 23,300	7.24%	1/1/2007–5/31/2015
	Tranche B (UP Offshore Panama)	2,000	7.62%	1/1/2007–6/31/2008
DVB Bank AG				
	Tranche A (UP Offshore Apoio)	12,250	6.56%	1/1/2007–2/14/2016
	Tranche B (UP Offshore Apoio)	1,444	6.56%	1/1/2007–2/14/2009
9% First Preferred ship Montages Notes due 2014		180,000	9.00%	1/1/2007–11/24/2014

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Management's discussion and analysis of financial condition and results of operations

(f)

All interest expense calculations begin January 1, 2007 and end on the respective maturity dates. The LIBOR rates are the rate in effect as of December 31, 2006.

(g)

Our subsidiaries in the River Business, entered into a full supply contract with Repsol YPF S.A. The calculations use the market prices in effect as of December 31, 2006.

For additional disclosures regarding these obligations and commitments, see our notes to our audited consolidated financial statements.

We believe, based upon current levels of operation and cash flow from operations, together with other sources of funds, that we will have adequate liquidity to make required payments of principal and interest on our debt, including obligations under the Notes, complete anticipated capital expenditures and fund working capital requirements.

Our ability to make scheduled payments of principal, or to pay interest on, or to refinance, our indebtedness, including the Notes, or to fund planned capital expenditures will depend on our ability to generate cash from our operations in the future. Our ability to generate cash is subject to general economic, financial, competitive, legislative, regulatory and other factors that are beyond our control.

### Critical Accounting Policies and Estimates

This discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. On an on-going basis, we evaluate our estimates, including those related to bad debts, useful lives of vessels, deferred tax assets, and certain accrued liabilities. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

Critical accounting policies are those that reflect significant judgments or uncertainties, and potentially lead to materially different results under different assumptions and conditions. We have described below what we believe are our most critical accounting policies that involve a high degree of judgment and the methods of their application. For a description of all of our significant accounting policies, see note 2 to our audited consolidated financial statements.

### Revenues and related expenses

Revenue is recorded when services are rendered, we have a signed charter agreement or other evidence of an arrangement, pricing is fixed or determinable and collection is reasonably assured.



Revenues are earned under time charters, bareboat charters, consecutive voyage charters or affreightment/ voyage contracts. Revenue from time charters and bareboat charters is earned and recognized on a daily basis. Revenue for the affreightment contracts and consecutive voyage charters is recognized based upon the percentage of voyage completion. A voyage is deemed to commence upon the departure of discharged vessel of previous cargo and is deemed to end upon the completion of discharge of the current cargo. The percentage of voyage completion is based on the miles transited at the balance sheet date divided by the total miles expected on the voyage. The position of the barge at the balance sheet date is determined by locating the position of the boat with the barge in tow through use of a global positioning system. Demurrage income represents payments by the charterer to the vessel owner when loading or discharging time exceeded the stipulated time in the voyage charter and is recognized as it is earned. Revenue from our passenger vessels business is recognized upon completion of voyages, together with revenues from on board and other activities.

From time to time we provide ships salvage services under Lloyd's Standard Form of Salvage Agreement ("LOF"). The Company recognizes costs as incurred on these LOF services. Revenue is recognized to the extent

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## Management's discussion and analysis of financial condition and results of operations

of costs incurred in order to appropriately match revenues with costs, provided that the Company has earned the revenue. The Company has historically recovered at least its cost in all of its prior salvage operations. Additional revenues in excess of costs incurred are recorded at the time the final LOF settlement or arbitration award occurs.

Vessels voyage costs, primarily consisting of port, canal and bunker expenses that are unique to a particular charter, are paid for by the charterer under time charter arrangements or by us under voyage charter arrangements. The commissions paid in advance are deferred and amortized over the related voyage charter period to the extent revenue has been deferred since commissions are earned as our revenues are earned. Bunker expenses and gift shop for resale are capitalized when acquired as operating supplies and subsequently charged to voyage expenses as consumed/resold. All other voyage expenses and other vessel operating expenses are expensed as incurred.

### Vessels and equipment, net

Vessels and equipment are stated at cost less accumulated depreciation. This cost includes the purchase price and all directly attributable costs (initial repairs, improvements and delivery expenses, interest and on-site supervision costs incurred during the construction periods). Subsequent expenditures for conversions and major improvements are also capitalized when they appreciably extend the life, increase the earning capacity or improve the safety of the vessels.

Depreciation is computed net from the estimated scrap value, which is equal to the product of each vessel's lightweight tonnage and estimated scrap value per lightweight ton, and is recorded using the straight-line method over the estimated useful lives of the vessels. Acquired secondhand vessels are depreciated from the date of their acquisition over the remaining estimated useful life.

Listed below are the estimated useful lives of vessels and equipment:

	Useful lives (in years)
River barges and pushboats	35
PSVs	24
Ocean-going vessels	24
Passenger vessels	45

Furniture and equipment 5 to 10

However, when regulations place limitations over the ability of a vessel to trade, its useful life is adjusted to end at the date such regulations become effective. Currently, these regulations only affect one of our vessels in the Passenger Business with no significant effects on its useful life.

At the time vessels are disposed of, the assets and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is recorded in other operating income (expense).

Long-lived assets are reviewed for impairment in accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets," whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected future undiscounted cash flows is less than the carrying amount of the asset, a loss is recognized for the difference between the fair value and carrying value of the asset.

Drydock Costs

Our vessels must be periodically drydocked and pass inspections to maintain their operating classification and/or as mandated by maritime regulations. Costs incurred to drydock the vessels are deferred and amortized over the period to the next drydocking, generally 24 to 36 months. Drydocking costs may be comprised of painting the vessel hull and sides, recoating cargo and fuel tanks, and performing other engine and equipment maintenance activities to bring the vessel into compliance with classification standards. Costs include actual costs incurred at the yard, cost of fuel consumed, and the cost of hiring riding crews to effect repairs. The unamortized portion of dry dock costs for vessels that are sold are written off and included in the calculation of the resulting gain or loss in the year of the vessel's sale.

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Expenditures for maintenance and minor repairs are expensed as incurred.

Insurance claims receivable

Insurance claims receivable represent costs incurred in connection with insurable incidents for which the Company expects to be reimbursed by the insurance carriers, subject to applicable deductibles. Deductible amounts related to covered incidents are expensed in the period of occurrence of the incident. Expenses incurred for insurable incidents in excess of deductibles are recorded as receivables pending the completion of all repair work and the administrative claims process. The credit risk associated with insurance claims receivable is considered low due to the high credit quality and funded status of the insurance underwriters and P&I clubs in which we are a member. The Company has historically recovered at least its cost in substantially all of its prior covered incidents.

Recent accounting pronouncements

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of SFAS109, Accounting for Income Taxes ("FIN 48"), to create a single model to address accounting for uncertainty in tax positions. FIN 48 clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties accounting in interim periods, disclosure and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. We do not expect that the adoption of FIN 48 will have a significant impact on our financial position and results of

operations.

Off-balance sheet arrangements.

We do not have any off-balance sheet arrangements.

## Quantitative and Qualitative Disclosures about Market Risks

### Inflation and Fuel Price Increases

We do not believe that inflation has a material impact on our operations, although certain of our operating expenses (e.g., crewing, insurance and drydocking costs) are subject to fluctuations as a result of market forces. Inflationary pressures on bunker (fuel oil) costs are not expected to have a material effect on our future operations in the case of our ocean vessels which are mostly time chartered to third parties since it is the charterers who pay for fuel. If our ocean vessels are employed under COAs, freight rates for voyage charters are generally sensitive to the price of a ship's fuel. However, a sharp rise in bunker prices may have a temporary negative effect on our results since freight rates generally adjust only after prices settle at a higher level. In our River Business, we have some of our freight agreements adjusted by bunker prices adjustment formula, and in other cases we have periodic renegotiations which adjust for fuel prices, and in other cases we adjust the fuel component of our cost into the freights on a seasonal or yearly basis. In our Offshore Supply Business and Passenger Business, the charterers are generally responsible for the cost of fuel. However in the case of one of our passenger vessels we will be responsible for the supply of fuel and consequently we undertake the risk of fluctuations in the price of fuel.

### Interest Rate Fluctuation

We are exposed to market risk from changes in interest rates, which may adversely affect our results of operations and financial condition. Our policy is not to use financial instruments for trading or other speculative purposes, and we are not a party to any leveraged financial instruments.

Short term variable rate debt composed \$4.7 million of our total debt as of December 31, 2006. Long term variable rate debt composed \$34.3 million of our total debt as of December 31, 2006. Our variable rate debt had an average interest rate of 7.69% as of December 31, 2006. A 1% increase in interest rates on \$39.0 million of debt would cause our interest expense to increase on average \$0.4 million per year over the term of the loans, with a corresponding decrease in income before taxes.

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### Foreign Currency Fluctuation

We are an international company and, while our financial statements are reported in U.S. dollars, some of our operations are conducted in foreign currencies. We use U.S. dollars as our functional currency, and therefore, our future operating results may be affected by fluctuations in the exchange rate between the U.S. dollar and other currencies. A large portion of our revenues are denominated in U.S. dollars as well as a significant amount of our expenses. However, changes in currency exchange rates could affect our reported revenues, and even our margins if costs incurred in multiple currencies are different than, or in a proportion different to, the currencies in which we receive our revenues.

We have not historically hedged our exposure to changes in foreign currency exchange rates and, as a result, we could incur unanticipated future losses.

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### The international shipping industry

The information and data in this section relating to the international maritime transportation industry have been provided by Doll Shipping Consultancy, or DSC, an independent United Kingdom-based company providing market analysis and strategic planning services to the shipping industry. DSC bases its analysis on information drawn from published and private industry sources. For purposes of this Industry Overview, Latin America includes Central America, South America, and the Caribbean Basin islands. Consistent with revised International Energy Agency definitions, North America includes the United States, Canada, and Mexico. DSC has advised us that (1) some industry data included in this discussion is based on estimates or subjective judgments in circumstances where data for actual market transactions either does not exist or is not publicly available, (2) the published information of other maritime data collection experts may differ from this data, and (3) while DSC has taken reasonable care in the compilation of the industry statistical data and believe them to be correct, data collection is subject to limited audit and validation procedures.

### RIVER INDUSTRY

Key factors driving cargo movements in the Hidrovia Region are agricultural production and exports, particularly soybeans, from Argentina, Brazil, Paraguay and Bolivia, exports of Brazilian iron ore, regional demand and Paraguay and Bolivia imports of petroleum products. Exports of Argentine forest products and other commodities are also significant. Practically all the cargos transported in the Hidrovia Region are export or import-related cargos.

The Parana/Paraguay, the High Parana and the Uruguay rivers consist of over 2,200 miles of a single natural interconnected navigable river system serving five countries, namely Brazil, Bolivia, Paraguay, Uruguay and Argentina. The size of this river system is comparable to the Mississippi river in the United States.

### Dry Bulk Cargo

Soybeans. Argentina, Brazil, Paraguay, and Bolivia produced about 39.9 million tons, or mt, of soybeans in 1995 and 101.6 mt in 2005, a CAGR of 9.8% from 1995. Production for these countries for 2006 is estimated at 107.9 mt. These countries accounted for about 47% of world soybean production in 2005, growing from only 29% in 1995.

	1995	2005	2006(e)	10 yr CAGR 1995-2005
Argentina	12.5	40.5	44.0	12.5%
Bolivia	0.9	2.1	2.2	9.0%
Brazil	24.2	55.0	57.0	8.6%
Paraguay	2.4	4.0	4.7	5.2%
Regional Total	39.9	101.6	107.9	9.8%
United States	59.2	83.4	86.8	3.5%
China	13.5	16.4	16.2	1.9%
Other Countries	12.2	16.6	18.6	3.1%
World	137.5	217.9	229.4	4.7%

Source: Doll Shipping Consultancy based on industry sources

The Hidrovia Region is one of the few areas left in the world where unused farmland is available. Within the five countries of the Hidrovia Region, acreage harvested in soybeans has increased from approximately 18.4 Mha (million hectares, 1 hectare = 2.47 acres) in 1995 to 40.5 Mha in 2005, a CAGR of 8.2%. Further, with advances in technology, productivity of farmland has also improved.

The growth in soybean production has not occurred at the expense of other key cereal grains. Production of corn (maize) in Argentina, Bolivia, Brazil and Paraguay combined grew from 44.8 mt in 1995 to 59.3 mt in 2005, a CAGR of 2.8%. Production of wheat in these countries grew from 10.4 mt in 1995 to 20.3 mt in 2005, a CAGR of 6.9%.

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The installation of crushing plants in Bolivia and Paraguay has generated a large volume of vegetable oils and soybean meal that are also shipped via the river for export. Soybean meal exports from Bolivia and Paraguay totaled about 1.8 mt in 2005, while soybean oil exports were about 0.3 mt.

**Iron Ore.** In the Corumba area in Brazil near the High Paraguay River, two existing large iron ore mines owned by international mining companies Rio Tinto and Companhia Vale do Rio Doce (CVRD) have been joined by a new mine under construction owned by MMX Mineração & Metálicos S.A. (MMX). Their combined production of iron ore, which is entirely transported by barge, has grown from about 1.1 million mt (mmt) since 1999 to a 2006 estimate of about 3.6 mmt per year, a CAGR of 19%. Estimated production in 2007 is about six million tons per annum, based on the MMX mine reaching its announced targets of 3.3 mmt in 2007 and 4.9 mmt in 2008, and could further increase as Rio Tinto is considering expansion of its mine.

## Estimated Hidrovia Region Iron Ore Production

Source: Doll Shipping Consultancy based on industry sources and estimates

**Forest Products.** Areas adjacent to the Hidrovia Region in Northern Argentina comprise most of Argentina's forest and forest product producing areas. Higher value added sectors of the forest products industry have grown at high rates, while lower value added sectors (e.g. logs, fuel wood) have remained stable or declined. Wood-based panel and sawnwood export quantities grew by a CAGR of about 21% from 1994-2004, while paper and paperboard exports grew by a CAGR of about 16%. Wood-based panels, sawnwood, paper, paperboard, and wood pulp sectors comprise about 97% of 2004 (the last year for which data is available) export value (total forest product export value \$565 million). The value of exports of these products reached \$546 million in 2004, a CAGR of 18.7% from 1994.

Argentine exports	1994	2004	10 yr	
			CAGR	
			1994-2004	
Wood based panels ('000 cu.m.)	103	691	20.9	%
Sawnwood ('000 cu.m.)	33	234	21.7	%
Paper and Paperboard ('000 tons)	42	192	16.4	%
Pulp for Paper ('000 tons)	158	291	6.3	%
Value of above exports (\$ million)	98	546	18.7	%

Source: Doll Shipping Consultancy based on industry sources and estimates

## Oil transportation

The Hidrovia Region is a key link in Argentina's oil supply network. In 2004, Argentine oil demand was estimated at about 480,000 barrels per day, or bpd, while production for 2006 was estimated at approximately 770,000 bpd. Total refining capacity is estimated at about 625,000 bpd.

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Paraguay has no indigenous sources of petroleum. Barges using the rivers in the Hidrovia Region are currently the preferred method of supplying Paraguay with crude and petroleum products, totaling between 1.1 million cubic meters to 1.3 million cub meters per year in the last 6 years.

All the petroleum products travel north to destinations in Northern Argentina, Paraguay and Bolivia, creating synergies with dry cargo volumes that mostly travel south.

Brazil does not yet transport any significant quantity of petroleum products via the rivers in the Hidrovia Region, mainly due to lack of discharge facilities. However, incentives exist to switch to barge transportation for petroleum product distribution to Brazilian cities near the river. Currently, interior regions of Brazil near the Hidrovia are supplied over land by truck.

## Fleet developments and utilization

In the last ten years the barge fleet in the Hidrovia Region has more than doubled, maintaining a high level of utilization. This has occurred not only due to the growth of production in the area, but also because cargo that in the past was transported by truck started to shift to river transport as the infrastructure developed. Today's available barge fleet in the area consists approximately of 1,100 dry and tank barges, in contrast with approximately 26,500 barges in the Mississippi River System in the United States.

UABL owns and operates approximately 43% of total dry cargo capacity. The closest competitor, Fluviomar, operates approximately 19% of the dry cargo tonnage capacity. There are approximately 10 different companies operating dry cargo barges in the Hidrovia Region.

The barge business in the Parana river has seasonal fluctuations due to the agricultural aspect of the trade. The high season in 1993 was from March through July, and in 2003 the high season had extended from February through September. However, the October through January period is now much more active due to the construction of a large soybean crushing plant along the Parana river that works most of the year.

Freight levels are much less cyclical than in ocean transportation and are based on local supply and demand factors that are generally not related to ocean freights.

## Mode Comparison

Along with growth in production of commodities transported by barge in the Hidrovia Region, cost, safety and environmental incentives exist to shift commodity transport to barges.

Inland barge transportation is generally the most cost efficient, safest and cleanest means of transporting bulk commodities as compared with railroads and trucks.

One barge has the carrying capacity of approximately 15 railcars or approximately 58 tractor-trailer trucks and is able to move 514 ton-miles per gallon of fuel compared to 202 ton-miles per gallon of fuel for rail transportation or 59 ton-miles per gallon of fuel for tractor-trailer transportation. On a cost per ton-mile basis in the United States, rail transportation is 3.1 times more expensive and truck transportation is 37.0 times more expensive than barge transportation. In addition, when compared to inland barges, trains and trucks produce 3.5 times and 19.0 times, respectively, the amount of certain smog-causing chemicals when moving equivalent amounts of cargo over equivalent distances. According to the U.S. Bureau of Transportation Statistics, barge transportation is also the safest mode of cargo transportation, based on the percentage of fatalities and the number of hazardous materials incidents, fatalities and injuries from 1999 through 2002. Inland barge transportation predominantly operates away from population centers, which generally reduces both the number and impact of waterway incidents.

In terms of unit transportation cost for most dry bulk cargos, barge is cheapest, rail is second cheapest, and truck is third cheapest. There are clear and significant incentives to build port infrastructure and switch from truck to barge to reduce cost.

## OFFSHORE SUPPLY INDUSTRY

The market for offshore supply vessels, or OSVs, both on a worldwide basis and within Brazil, is driven by a variety of factors. On the demand side, the driver is the growth in offshore oil development/production activity,

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which in the long term is driven by the price of oil and the cost of developing the particular offshore reserves. Demand for OSVs is further driven by the location of the reserves, with fields located further offshore and in deeper waters requiring more vessels per field and larger, more technologically sophisticated vessels. The supply side is driven by the availability of the vessel type needed (i.e., appropriate size and technology), which in turn is driven by historical newbuilding patterns and scrapping rates as well as the current employment of vessels in the worldwide fleet (i.e., whether under long-term charter) and the rollover schedule for those charters. Technological developments also play an important role on the supply side, with technology such as dynamic positioning better able to meet certain support requirements.

Both demand for and supply of OSVs are heavily influenced by cabotage laws. Since most offshore supply activities occur within the jurisdiction of a country, they fall within that country's cabotage laws. This distinguishes the OSV sector from most other types of shipping. Cabotage laws may restrict the supply of tonnage, give special preferences to locally flagged ships or require that any vessel working in that country's waters be flagged, crewed, and in some cases, constructed in that country.

OSVs generally support oil exploration, production, construction and maintenance activities on the continental shelf and have a high degree of cargo capacity and flexibility relative to other offshore vessel types. They utilize space above and below deck to transport dry and liquid cargo, including heavy equipment, pipe, drilling fluids, provisions, fuel, dry bulk cement and drilling mud.

The OSV sector includes conventional supply vessels, or SVs, and platform supply vessels, or PSVs. PSVs are large and often sophisticated vessels constructed to allow for economic operation in environments requiring some combination of deepwater operations, long distance support, economies of scale, and demanding operating conditions. PSVs serve drilling and production facilities and support offshore construction and maintenance work for clusters of offshore locations and/or relatively distant deepwater locations. They have larger deck space and larger and more

varied cargo handling capabilities relative to other offshore support vessels to provide more economic service to distant installations or several locations. Some vessels may have dynamic positioning which allows close station keeping while underway. PSVs can be designed with certain characteristics required for specific offshore trades such as the North Sea or deepwater Brazilian service.

The industry OSV fleet (SVs and PSVs) has approximately 1,452 vessels, with about 184 vessels on order.

The industry SV fleet has approximately 1,026 vessels with about 53 vessels on order. The average of age of the industry SV fleet is 24 years, with approximately three quarters of the vessels in the industry fleet being age 20 years or older.

The industry PSV fleet has approximately 426 vessels, with approximately 131 vessels on order. The average age of the industry PSV fleet is approximately 9 years.

The world PSV fleet can be divided into three vessel sizes by dwt, which is an approximate measure of a vessel's cargo carrying capacity.

Industry PSV Fleet as of March 1, 2007

	Cargo Carrying Capacity (in DWT)	Total No. of Vessels	Average age (in years)	Orderbook
Small	1,499 or less	19	20	0
Medium	1,500 to 3,999	312	8	90
Large	4,000+	95	7	41
		426		131

Source: Doll Shipping Consultancy based on industry sources and estimates

Typically, larger and newer PSVs support facilities that are located in more demanding environments are often more distant from shore. The large PSV segment is the youngest portion of the industry fleet. Large PSVs typically are equipped with the advanced technological and cargo handling features noted above that allow service in demanding offshore areas while realizing efficiencies by supplying large cargoes to multiple offshore areas.

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There are approximately 106 offshore drilling rigs of various types on order. Typically, 1.5 to 2 PSV's are needed to service an offshore drilling rig, due to operating requirements and safety standby vessel requirements that require a vessel in the area of the rig at all times. (Note: This is a "rule of thumb" based on industry experience. Actual requirements will vary.) These 106 rigs on order would result in an indicative estimated requirement of about 180 PSV's, using a basis of 1.7 PSVs per rig.

As noted above, the industry trend towards more technically demanding drilling activity at distances farther offshore using existing rigs would also increase demand for PSVs.

Brazilian Offshore Industry



Driven by Brazil's policy of becoming energy self-sufficient as well as by oil price and cost considerations, offshore exploration, development, and production activities within Brazil have grown. Since most Brazilian reserves are located far offshore in deep waters, where large, technologically-sophisticated vessels are needed, today, Brazil is a world leader in deep drilling technology.

The primary customer for PSVs in Brazil is Petrobras, the Brazilian national oil company. The Brazilian government has also allowed foreign companies to participate in offshore oil and gas exploration and production since 1999. Other companies active in Brazil in offshore oil and gas exploration and production industry include Total, Shell, BP and ChevronTexaco. The deepwater Campos Basin, an area located about 80 miles offshore, has been the leading area for offshore activity. Activities have been extended to the deepwater Santos and Espirito Santo Basins as well with activities now taking place in areas of water depths of over 9,000 ft.

Deepwater service favors modern vessels that can provide a full range of flexible services while providing economies of scale to installations distant from shore. Cabotage laws favor employment of Brazilian flag vessels. However, many of the Brazilian flag PSV's and supply vessels are old, with approximately 42% of the national fleet are at least 20 years of age. Temporary authority is granted for foreign vessels to operate only if no Brazilian flag vessels are available.

#### Brazilian-Flag PSV and Supply Vessels

Source: Doll Shipping Consultancy based on industry sources

There are a total of approximately 82 Brazilian flag offshore vessels excluding pure crew boats and well stimulation vessels including four large PSVs of 4,000 dwt or more. The current orderbook for Brazilian flag PSVs and SVs is eight vessels, including five large PSVs.

#### The North Sea Market

The North Sea is a similarly demanding offshore market due to difficult weather and sea conditions, significant water depths, long distances to be traveled, and sophisticated technical requirements.

In 2000 and 2001, increases in oil prices led to increased North Sea exploration activity and higher OSV demand. Oil prices fell in early 2002, leading to questions regarding the sustainability of the higher oil prices and reduced exploration and development activity. Even with recovery in the Brent price to an average of about

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\$29 per barrel in 2003, North Sea exploration and development activity remained low. Low oil prices and availability of more attractive opportunities elsewhere resulted in a shift of activities by oil majors towards other regions. Oil prices continued their increase, with average Brent crude prices of about \$38 per barrel in 2004, \$55 per barrel in 2005, and \$65 per barrel in 2006. Exploration and development activities increased. Major oil companies returned to the North Sea while the independents remained and increased their activities.

High demand led to increases in large PSV rates, averaging approximately \$15,900 per day in 2004, \$30,400 per day in 2005, and \$48,600 in 2006. Large PSVs do not have a long rate history due to their relatively recent entry into service. Rates continued at high levels in January and February 2007, averaging \$53,300.

#### OIL TANKER INDUSTRY OVERVIEW

The demand for tankers is a function of the volume of crude oil and petroleum products to be transported by sea and the distance between areas of oil consumption and oil production. The volume of crude oil and petroleum products transported is affected by overall demand for these products, which in turn is influenced by, among other things, general economic conditions, oil prices, weather, competition from alternative energy sources, and environmental concerns.

World oil demand increased from about 71.9 million barrels per day, or MBD, in 1996 to 84.5 MBD in 2006, a compounded annual growth rate, or CAGR, of approximately 1.6%. Oil demand increased in all regions of the world except for the former Soviet Union and non-OECD Europe. In 2006 oil demand grew by approximately 0.9 MBD.

During this same period, world oil supply increased from about 72.5 MBD in 1996 to 85.3 MBD in 2006, a CAGR of about 1.6%. In 2006 oil production grew by 0.8 MBD. OPEC crude oil production increased from 25.8 MBD in 1996 to 29.7 MBD in 2006, a CAGR of approximately 1.4%. Non-OPEC oil supply increased from 43.8 MBD to 50.9 MBD, a CAGR of about 1.5%.

Benchmark West Texas Intermediate crude, or WTI, averaged \$18.43 per barrel in 1995 (all crude prices are expressed in United States dollars) and averaged between approximately \$14 and \$23 through the rest of the 1990's. WTI prices increased in 2003 to an average of \$31.08 per barrel, and continued to increase to an average \$41.50 per barrel in 2004, \$56.64 per barrel in 2005, and \$66.04 per barrel in 2006. Price volatility was high, with 2006 monthly average \$ per barrel prices ranging from about \$59 to \$74. WTI prices in the first two months of 2007 averaged about \$57 per barrel.

#### Tanker Classifications and Primary Trade Routes

As the table below demonstrates, the world oil tanker fleet is generally divided into six vessel sizes classified by dwt, which is an approximate measure of a vessel's cargo carrying capacity. In general, VLCC's/ULCC's primarily transport crude oil on long-haul trade routes (where oil producers are located more than approximately 5,000 miles from the end user, such as from the Arabian Gulf to the Far East, from the Arabian Gulf to Rotterdam via the Cape of Good Hope, from the Arabian Gulf to the Red Sea, and from the Arabian Gulf to the US Gulf/Caribbean. Suezmax tankers trade on long-haul and short-haul routes as discussed below, while Aframax, Panamax, and Handy tankers serve routes typically in short-haul, regional markets (e.g., Latin America, Mediterranean, Southeast Asia).

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##### Industry Tanker Fleet as of March 1, 2007

	Cargo Carrying Capacity (in DWT)	Total No. Vessels	Total MDWT	% of Total Tanker Fleet (by DWT)	% of Fleet Age 20 yrs or older
Small	1,000 to 9,999	4,375	15.8	4 %	42 %
Handy	10,000 to 49,999	2,277	69.5	18 %	26 %
Panamax	50,000 to 79,999	414	27.1	7 %	25 %
Aframax	80,000 to 119,999	715	72.9	19 %	11 %
Suezmax	120,000 to 199,999	354	53.4	14 %	5 %
VLCC/ULCC	200,000+	494	144.7	38 %	6 %

8,629 383.4 100 %

Source: Doll Shipping Consultancy based on industry sources and estimates

Suezmax vessels are active in dirty trades (i.e., the transportation of crude oil and dirty petroleum products) from West Africa to the Americas, and in some Latin American dirty trades, including backhauls (return trips with a short ballast leg) to Europe and North America. Other major Suezmax trades include cross Mediterranean and intra-European trades.

Aframax tankers are active in Latin American dirty trades. Since Aframax tankers are the largest vessels capable of entering many U.S. ports, these vessels are often utilized on Latin America to U.S. trade routes to take advantage of economies of scale. Other major Aframax dirty trades include intra-European and cross-Mediterranean trades. In Aframax clean trades, major routes include voyages from the Middle East to Japan, Southeast Asia, and South Asia.

#### Factors Affecting Supply of Oil Tankers

The supply of tankers is determined by the size and technical suitability of the available fleet (i.e., size of a vessel versus port constraints, clean versus dirty cargo capabilities, charterer acceptability, etc.). Tanker owners include oil companies, government-owned shipping companies and independent vessel owners. Independent owners are now the largest group, owning about 80% of the tanker fleet. There are also operators who do not own vessels but who charter their tonnage from independent vessel owners. The existing tanker fleet increases by newbuilding deliveries and decreases by the number of tankers scrapped or otherwise removed from the fleet. Fleet size also decreases when vessel tonnage becomes unavailable due to floating storage, layup, or repair. Newbuilding, scrapping, and vessel unavailability are affected by current and expected future vessel prices, charter hire rates, operating costs, age profile of the fleet, and government and industry regulation. For example, compared to historical averages, 2004-2006 earnings were high, while scrapping was low. If vessel earnings were to decrease, repair and retention of older vessels would become less economically attractive, and industry scrapping could increase.

The International Maritime Organization, or IMO, adopted accelerated phase-out regulations for single hull tankers of 5,000 dwt or more carrying petroleum or petroleum products which entered into force in April 2005. The regulations are a complex set of requirements that accelerate the phase-out of pre-International Convention for the Prevention of Pollution from Ships, or MARPOL, "Category 1" tankers without protectively located segregated ballast to 2005. Single hull tankers with protectively located segregated ballast are to be phased out in 2010. Flag States may make exceptions for certain single hull, double bottom, or double sided vessels meeting determined quality and/or structural requirements that allow the vessels to continue in service until age 25 or the year 2015, whichever is earlier. Single hull vessels are also to be banned from carriage of certain heavy oils, with some exceptions allowed for double bottom or double sided vessels meeting certain quality criteria. Certain crude oils have been exempted. Port states may recognize the Flag State exemptions or may choose to enforce the earlier phase-out dates. The effects of the regulations are complex but will tend to accelerate the phase-out of single hull vessels. Actual scrapping behavior will depend upon many variables including the state of the market and future Flag State and Port State implementation.

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The European Union has had regulations in effect since 2003 that require double hull vessels be used for certain heavy oils, with no exceptions. These regulations apply to tankers of 5,000 dwt or more registered in European Union countries or entering waters within jurisdiction of European Union countries.

Along with mandatory regulations, other factors encourage scrapping of single hull tankers. Many charterers require or show preference for double hull vessels. This preference tends to reduce utilization of single hull vessels and to encourage scrapping.

Also, port congestion and canal congestion serve to limit effective supply at any one time.

#### Fleet Development

In 2005, 0.4 million dwt, or Mdw, of Suezmaxes were scrapped, while 4.0 Mdw were delivered. During 2006, none were scrapped, while 4.1 Mdw were delivered. During the first two months of 2007, none were scrapped, while 0.9 Mdw were delivered. The current orderbook is 18.2 Mdw (115 vessels) with 3.4 Mdw due for delivery this year, 3.1 Mdw next year and 8.4 Mdw in 2009. The remainder are scheduled to be delivered in 2010 and 2011. About 43.2 Mdw of Suezmaxes have double hulls, 2.6 Mdw have double bottoms or double sides, and 7.7 Mdw have single hulls.

#### Suezmax Fleet Development

Source: Doll Shipping Consultancy based on industry sources

#### Charter Hire Rates

One-year time charter rate assessments for a standard Suezmax vessel type are shown below. Time charter rate assessments ignore the wide variation in time charter rates based on different vessel specifications and performance, and are intended to demonstrate trends. Time charter rates tend to be less volatile than spot charter rates as they incorporate rate expectations, which change less quickly than the day to day spot freight market.

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##### Suezmax One Year Time Charter Rates \$ per day

Source: Doll Shipping Consultancy based on industry sources

During 2004, 2005, 2006, and early 2007, the concurrence of a number of positive factors resulted in high tanker earnings. Tanker demand increased while the industry fleet grew moderately. Growth in long-haul trades to Asia and the United States (including ongoing substitution of long-haul oil for short-haul Venezuelan oil) and high U.S. oil import requirements were positive factors, all resulting in strong tanker earnings. Suezmax one-year time charter rates averaged about \$24,800 per day in 2003, and increased to an average of about \$33,900 per day in 2004 and \$34,900 per day in 2005. Rates decreased slightly to an average of about \$32,400 per day in 2006 and \$31,000 per day in the first two months of 2007, but remain at historically high levels.

#### Chemical Tankers

Vessels with IMO Chemical Classification are required for transport of chemicals. International regulations for the transportation of chemicals specify protective location, stability requirements, safety criteria for survivability and containment in certain damage cases, maximum tank sizes and other criteria. These standards are grouped into IMO Chemical Classifications. A "Type 1" vessel is a chemical tanker intended for the transportation of products considered to present the greatest overall hazard and "Type 2" and "Type 3" vessels for products of progressively lesser hazards. Vessels

may have tank capacity on board meeting different IMO classifications. For example, a vessel may have Type 1 and Type 2 cargo tanks or Type 2 and Type 3 tanks. Type 1 and Type 2 capacity vessels have protective location requirements that require void spaces between bottom and side shell plating of the vessels, effectively requiring double bottoms or double hulls. Type 3 capacity vessels do not have protective location requirements.

Revised MARPOL Annex 2 regulations took effect on January 1, 2007, requiring Type 2 or double hull Type 3 vessels for the transport of vegetable and other edible oils (vegoils) and expanding IMO class chemical transport requirements.

There are 2,277 Handysize tankers (from 10,000 dwt to 49,999 dwt) totalling 69.5 million dwt, or Mdw. 1,484 vessels, or 44.0 Mdw, are chemical tankers (certificated to carry Type 1, 2, or 3 cargoes.) Type 1, Type 2, and Type 3 capacity totals about 0.4 million metric tons, or mmt, 16.5 mmt, and 27.1 mmt respectively. Included in the Handysize chemical tanker totals is about 7.5 mmt of stainless steel capacity.

The current orderbook for Handysize tankers totals about 830 vessels of approximately 25.2 Mdw, approximately 36% of the existing fleet. Scheduled deliveries for 2007, 2008 and 2009 are 7.8, 7.8 and 6.5 Mdw, respectively. Included are about 698 chemical tankers, or 19.2 Mdw. Scheduled chemical tanker deliveries for 2007, 2008 and 2009 are about 6.7, 5.9 and 4.5 Mdw, respectively. Type 1, Type 2, and Type 3 capacity on order totals about 0.07 mmt, 10.0 mmt, and 9.2 mmt, respectively. Included in the Handysize chemical tanker orderbook is approximately 2.7 mmt of stainless steel capacity.

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There are 4,375 small tankers (from 1,000 dwt to 9,999 dwt) totalling 15.8 Mdw. About 1,199 vessels or 6.4 Mdw are chemical tankers (certificated to carry Type 1, 2, or 3 cargoes.) Type 1, Type 2, and Type 3 capacity totals about 0.01 mmt, 4.0 mmt, and 2.4 mmt respectively. Included in the small chemical tanker totals is approximately 2.6 mmt of stainless steel capacity.

The current orderbook for small tankers totals about 402 vessels, or approximately 2.2 Mdw, about 14% of the existing fleet. Scheduled deliveries for 2007, 2008 and 2009 are 1.3, 0.7 and 0.2 Mdw, respectively. Included are about 232 chemical tankers, or 1.4 Mdw. Scheduled chemical tanker deliveries for 2007, 2008 and 2009 are 0.8, 0.5, and 0.2 Mdw, respectively. Type 1, Type 2, and Type 3 capacity on order totals about 0.0 mmt, 0.9 mmt, and 0.5 mmt respectively. Included in the small chemical tanker orderbook is approximately 0.2 mmt of stainless steel capacity.

Chemical tankers of 5,000 to 20,000 dwt typically trade in intraregional and in short to medium haul interregional markets for specialized cargoes. Typical intraregional trades for these vessels would include intraregional trades in Latin America, the Caribbean, Northern Europe and the Mediterranean, Southeast Asia, and Northeast Asia. Typical interregional trades would be North-South trades in the Americas, the Mediterranean to and from Northern Europe, South East Asia to Australia, and trades to and from adjacent Asian regions (e.g. Southeast Asia to South Asia).

Chemical tanker capacity is in excess of chemical tanker requirements and is projected to remain in excess of future chemical tanker requirements. Therefore many chemical tankers will spend all or part of their lives in clean product trades. Vessel characteristics that allow transport of more demanding chemicals, such as stainless steel capacity, would increase the likelihood of the vessel trading in chemicals.

While the changes in regulations by themselves are not projected to cause a shortage of tonnage, product tanker time charter rates and chemical tanker freight rates have been at historically high levels during 2004, 2005, and 2006,

indicating high levels of demand versus supply. High petroleum product demand in Asia and the United States required local refineries to run at or near capacity, leading to high product prices and attractive margins for product imports. Growth in product imports to the U.S. was supplied by Russia and Europe, while imports from Latin America were stable. Damage to refineries in the Gulf of Mexico from the hurricanes in the United States in the fall of 2005 further increased demand for product imports in the United States. High motor gasoline demand and prices in the U.S. have supported continued high U.S. imports in 2006.

Handysize Product Tanker one year time charter rate \$/day and Easychem Freight Indicator  
(Average \$ per mt rate for 3,000-5,000 mt easy chemicals for selected routes)

Source: Doll Shipping Consultancy based on industry sources and estimates

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### Dry Bulk Industry

The international dry bulk cargo market is a global industry and is affected by many factors throughout the world. Important industry conditions for dry bulk shipping include world dry bulk commodity production and demand, the size of the international dry bulk vessels and combination carrier fleet, the new production and scrapping of oceangoing dry bulk vessels and freight rates. Both Capesize dry bulk vessels and combination carriers transport dry bulk cargos, such as iron ore and coal.

### Dry Bulk Demand and Production

Seaborne iron ore trade grew from an estimated 392 mmt in 1996 to about 721 mmt in 2006, a CAGR of 6.3%. High demand for steel in China has led to growth in Chinese iron ore imports from about 44 mmt in 1996 to 326 mmt in 2006, a CAGR of 22.2%. This increase includes growth of about 51 mmt in 2006, a year on year increase of about 18%.

China iron ore imports mt per month

Source: Doll Shipping Consultancy from industry sources

Other Asian countries, such as Japan and Korea, have required increasing iron ore imports. The top iron ore exporters are Australia and Brazil, accounting for about 74% of estimated 2006 seaborne iron ore trade. Australian exports grew from 132 mmt in 1996 to 270 mmt in 2006, including 29 mmt of growth in 2005. Brazil's iron ore exports increased from 129 mmt in 1996 to 249 mmt in 2006, which includes 25 mmt of growth in 2006.

Coal trade is made up of thermal coal (steam coal), burned for its heat value primarily in power generation, and metallurgical coal (coking coal, met coal), used in steelmaking. Estimated seaborne steam coal trade grew from about 260 mmt in 1996 to about 522 mmt in 2006, a CAGR of 7.2%, which includes 24 mmt of growth in 2006. Leading coal exporters are Indonesia, Australia, South Africa, Colombia and China.

### Capesize dry bulk vessels and combination carriers

Capesize dry bulk vessels and combination carriers have a cargo carrying capacity of 80,000 dwt or greater based on representative sizes of vessels too large to pass through the Panama Canal. However, most Capesize tonnage (about

91%) is comprised of vessels of 100,000 dwt or greater. Capesizes primarily transport iron ore and coal on trade routes where lack of port constraints (especially depth of water) and cargo parcel size limits allow realization of economies of scale.

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#### Capesize Fleet Development

Source: Doll Shipping Consultancy based on industry sources

As of March 1, 2007, there were 843 Capesize dry bulk vessels comprising approximately 132.6 Mdw. In 2005, 0.2 Mdw of Capesizes were scrapped, while 10.1 Mdw were delivered. During 2006, 0.3 Mdw were scrapped and 0.5 Mdw were lost in casualties, while 14.5 Mdw were delivered. During the first two months of 2007, none were scrapped, while 1.9 Mdw were delivered. The current orderbook is 50.6 Mdw (334 vessels) with 11.1 Mdw due for delivery this year, 12.4 Mdw next year and 11.9 Mdw in 2009. The remainder are scheduled to be delivered in 2010 and 2011. Total Capesize combination carrier dwt is 6.3 million, with an estimated 4.4 Mdw (70%) currently employed in dry bulk trades. None were delivered since 2003 or are currently on order. None were scrapped in 2005. About 0.3 Mdw were scrapped during 2006. None were scrapped in the first two months of 2007.

Improved trade in the year 2000 resulted in average one-year time charter rates of about \$17,100 per day. Slower trade growth and high fleet growth in 2001 and 2002 resulted in lower time charter rates, with average one-year time charter rates of \$12,800 per day in 2001 and \$12,300 per day in 2002. Throughout 2003, there were large increases in dry bulk trade and tonnage demand that offset fleet growth, with one-year time charter rates averaging \$26,400 per day. In 2004, led by high Chinese iron ore import growth and strong coal markets, Capesize one-year time charter rates increased to an average \$49,100 per day. High Chinese imports of iron ore and other dry bulk commodities continued in 2005 and 2006, supported by commodity trade growth elsewhere. Port delays have further increased vessel demand. Even so, high vessel demand was outpaced by dry bulk fleet growth in 2005, and dry bulk vessel time charter rates decreased, with one year Capesize time charter rates decreasing to an average \$42,500 per day in 2005 and \$37,300 in 2006. Capesize one year time charter rates have averaged about \$54,000 per day during the first two months of 2007- due to high winter seasonal demand and ongoing high commodity trade and port congestion.

#### Industry Scrapping

In 2004, 2005 and 2006, industry scrapping has been low compared to historical standards. For example, during the years 1993 through 2003, tanker scrapping averaged about 11.9 Mdw per year, while in 2004, 2005, and 2006 tanker scrappings were approximately 7.8 Mdw, 4.1 Mdw, and 3.1 Mdw, respectively. During the years 1993 through 2003, dry bulk vessel scrapping averaged approximately 5.8 Mdw per year, while in 2004, 2005 and 2006 dry bulk vessel scrappings were about 0.4 Mdw, 0.7 Mdw, and 1.9 Mdw, respectively. Scrapping during the first two months of 2007 totaled approximately 1.2 Mdw for tankers and 0.1 Mdw for dry bulk vessels.

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The international shipping industry

## Tanker and Dry Bulk Vessel Scrapping

Source: Doll Shipping Consultancy based on industry sources and estimates

## PASSENGER VESSEL INDUSTRY

Passenger vessel demand is a function of overall demand for the global cruise industry. Principal sources of cruise passengers are North America, Europe, Asia and the South Pacific (including Australia and New Zealand), and South America.

The estimated number of cruise passengers in North America has grown from 4.9 million in 1997 to 9.7 million in 2005, a CAGR of 9.0%. This increase includes growth of 0.8 million in 2005, an annual increase of 9.0%. The total population of North America (excluding Mexico) is estimated at about 329 million. The number of cruise passengers in 2005 comprises an estimated 3.0% of total population in North America.

The estimated number of cruise passengers in major European markets is also growing. The number of cruise passengers from Europe grew from 2.8 million in 2004 to 3.2 million in 2005, representing annual growth of 13.5%. In the United Kingdom, the number of cruise passengers grew from about 1.03 million in 2004 to 1.07 million in 2005, an annual increase of 4%. In Germany, the number of cruise passengers grew from 583,000 in 2004 to 639,000 in 2004, an annual increase of 10%. In Greece, the number of passengers grew from 14,000 to 104,000 in the same period. In Italy, the number of passengers grew from 400,000 in 2004 to 514,000 in 2005, an annual increase of 29%, while in Spain the number grew from 300,000 to 379,000, an increase of 26%.

The total population of Western Europe is estimated at about 396 million, and the number of cruise passengers in 2005 comprises an estimated 0.8% of total population in Western Europe.

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## The international shipping industry

## Industry Fleet: Passenger vessels engaged in international ocean cruise service

Standard Capacity (in total berths)	Vessels	Total Standard Capacity	% of Standard Capacity	
under 250	52	6,298	2	%
250 – 499	28	10,658	3	%
500 – 999	53	37,520	12	%
1000 – 1999	68	103,932	33	%
2000 – 2999	56	128,984	41	%
3000+	8	25,284	8	%
Total	265	312,676	100	%

Source: Doll Shipping Consultancy based on industry sources and estimates

As of March 1, 2007, there were approximately 265 vessels engaged in international ocean cruise service with a standard lower berth capacity of approximately 313,000. This figure represents the total number of lower berths, estimated at two passengers per cabin; the actual passenger count may be higher due to the availability of upper berths, cots, or other arrangements. In 2005, approximately four vessels with a standard lower berth capacity of 9,456



were delivered, and five vessels with a standard lower berth capacity of 4,282 were scrapped. In 2006, seven vessels with a standard passenger capacity of approximately 18,360 were delivered, and none were scrapped. No deliveries or scrapping have occurred in the first two months of 2007.

The current orderbook is approximately 32 vessels with a standard lower berth capacity of approximately 95,906. In 2007, about nine vessels with a standard lower berth capacity of approximately 26,538 are under contract to be delivered. In 2008, approximately nine vessels with a standard lower berth capacity of approximately 24,584 are scheduled to be delivered, and in 2009 approximately eight vessels, with a standard lower berth capacity of approximately 26,716, are scheduled to be delivered. In 2010, five vessels with a standard lower berth capacity of 14,416 are scheduled to be delivered. In 2011, one vessel with a standard lower berth capacity of 3,652 is scheduled to be delivered. All of these vessels have a standard lower berth capacity of 2,000 or more.

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## Business

### Our Company

We are an industrial transportation company serving the marine transportation needs of our clients in the geographic areas on which we focus. We serve the shipping markets for grain, minerals, crude oil, petroleum, refined petroleum products and forest products, as well as the offshore oil platform supply market, and the leisure passenger cruise market through our operations in the following four segments of the marine transportation industry.

Our River Business, with 502 barges, is the largest owner and operator of river barges and pushboats that transport dry bulk and liquid cargos through the Hidrovia Region of South America, a large region with growing agricultural, forest and mineral related exports. This region is crossed by navigable rivers that flow through Argentina, Brazil, Bolivia, Paraguay and Uruguay to ports serviced by ocean export vessels. According to DSC, as a whole, these countries are estimated to account for approximately 47% of world soybean production in 2005, an increase from 29% in 1995.

Our Offshore Supply Business owns and operates vessels that provide critical logistical and transportation services for offshore petroleum exploration and production companies, in the North Sea and the coastal waters of Brazil. Our Offshore Supply Business fleet currently consists of proprietarily designed, technologically advanced platform supply vessels, or PSVs. We have four PSVs in operation and four under construction. Two PSVs are currently under construction in Brazil and are contracted to be delivered in the second quarter of 2007 and in 2008. We recently contracted with a shipyard in India to construct two PSVs for deliveries commencing in 2009, with an option to build two more.

Our Ocean Business owns and operates eight oceangoing vessels, including three Handysize/small product tankers which we intend to use in the South American coastal trade where we have preferential rights and customer relationships, three versatile Suezmax OBO vessels, capable of carrying either dry bulk or liquid cargos, one Aframax tanker and one semi-integrated 43,000 dwt tug/barge unit. Our Ocean Business fleet has an aggregate capacity of approximately 651,000 dwt and our three Suezmax OBOs are capable of carrying either dry bulk or liquid cargos,

providing flexibility as dynamics change between these market sectors.

Our Passenger Business fleet consists of two vessels with a total carrying capacity of approximately 1,600 passengers, and operates primarily in the European cruise market. We currently employ our largest passenger vessel under a multi-year seasonal charter with a European tour operator and the other passenger vessel will be employed in the Aegean Sea for the European season of 2007. In addition, we have operated one of our vessels during periods outside the European travel season for certain events.

We are focused on growing our businesses with an efficient and versatile fleet that will allow us to provide an array of transportation services to customers in several different industries. Our business strategy is to leverage our expertise and strong customer relationships to grow the volume, efficiency, and market share in a targeted manner. For example, we are currently increasing the cargo capacity of our existing river barges to help increase our efficiency and market share. In addition, we have commenced a program to replace the current engines in our pushboats with new engines that will allow us to operate using less expensive heavy fuel. We expect that the delivery of the two additional PSVs we have under construction in Brazil as well as the new orders placed in India will allow us to further capitalize on the attractive offshore petroleum services market. We are also pursuing the expansion of our ocean fleet through acquisitions of specific types of vessels to participate in identified market segments. We believe that the versatility of our fleet and the diversity of industries that we serve reduce our dependency on any particular sector of the shipping industry and offer numerous growth opportunities.

We have a diverse customer base including large and well-known petroleum, agricultural, mining and tour operating companies. Some of our significant customers in the last three years include affiliates of Archer

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## Business

Daniels Midland, British Gas, Cargill, Chevron, Continental Grain, ENAP, Industrias Oleaginosas, Panocean, Petrobras, the national oil company of Brazil, Petropar, the national oil company of Paraguay, Rio Tinto, Swissmarine, Total, Trafigura, Travelplan and Vicentin.

## Our Competitive Strengths

We believe that the following strengths have contributed to our success.

**We Are an Industrial Transportation Company.** We operate in four different sectors of the marine transportation industry. While we believe that there are synergies between our businesses, particularly in terms of the operational expertise, vessel management and customer base, the many factors that affect supply and demand, particular cost structure, and particular business risks are different. Accordingly, we believe that our diversification effectively provides a significant hedge against cyclical results in one or more of the segments in which we operate.

**Our Large Scale Generates Efficiencies That Provides Us With Better Control Over Pricing in our River Business.** We are the largest provider of river transportation services in the Hidrovia Region of South America, and

our river fleet has a cargo-carrying capacity of approximately 842,000 dwt and 502 barges. Our size offers economies of scale and increased negotiating power. For example, our size has allowed us to implement a different operational system than that of our competitors, called trunk mode, which enables us to service our clients with a continuous stream of available barges while reducing our operating costs on a per ton basis. The trunk mode is based upon the principle that the pushboat, which is the most expensive operational asset for a river transportation company, should operate continuously, and the barges operate through a fleeting point or hub and, once loaded or discharged, are picked up and taken to their next destination by the next available pushboat. We have also been able to enter long-term contracts for a substantial portion of our fleet for the next one to four years and have successfully negotiated fuel price adjustment clauses into many of our new contracts to insulate us from fluctuations in the price of fuel.

**We Possess Competitively Advanced Technology in Two of Our Businesses.** We have made significant investments in our technology systems. In our River Business, we use a navigational system that allows our convoys to navigate 24 hours a day on a river system that lacks the signals otherwise necessary for night navigation. This system enables us to use our River Business assets more efficiently than many of our competitors. In our Offshore Supply Business, we have also developed a proprietary design for our new PSVs in conjunction with the renowned Norwegian vessel design firm, the Vik-Sandvik Group. This design can only be reproduced with our consent, which, to date, we have not granted. We have equipped our PSVs with advanced technology such as dynamic positioning capabilities, dedicated oil recovery tanks in most of our PSVs for the performance of oil recovery duties, azimuth thrusters and greater cargo capacity and deck space, enabling these vessels to serve our customers in any of the major offshore markets including the challenging North Sea.

**We Have a Versatile Ocean Fleet.** Over the past decade, we have focused on building a versatile ocean fleet to meet the demands of a changing marketplace. We believe that our three Suezmax OBO vessels are ideally suited to take advantage of the changing conditions of the dry bulk and liquid cargo markets. We can readily switch our Suezmax OBO vessels from one type of cargo to another. Further, because of her narrow beam, our Aframax tanker is able, despite her large Aframax dwt, to transit the Panama Canal. This design is particularly appealing to customers who wish to employ an Aframax size vessel but who occasionally need to bring cargos through the Panama Canal. Our Handysize/small product tankers can transport a variety of different cargos, from heated crudes to multiple light products such as gasoline and jet fuel. Our chemical/product carrier Miranda I has the capability to segregate up to seventeen different classes of cargo in center stainless steel tanks, and can be adapted to the requirements of many different trades.

**We Have Long-Term, High Quality Customer Relationships.** We have operated our vessels around the globe since we began our business in 1992. We have long-standing relationships with large, established customers, including affiliates of major international oil and agriculture companies, such as Petrobras,

Archer Daniels Midland, Cargill, Continental Grain and ENAP. These long-term customer relationships arise from our proven reliability and high-quality service. For example, two of our customers, Petrobras and Cargill Incorporated, have been customers of the Company for 13 and nine years, respectively.

**We Maintain High Standards of Performance and Safety.** We pride ourselves on our operational excellence, our ability to provide high caliber service and our commitments to safety, quality and the environment. The quality of our vessels as well as the expertise of our vessel manager, crews and engineering resources help us maintain safe, reliable and consistent performance. We maintain well documented and internationally certified safety and quality management systems, perform periodic audits and conduct training, each of which affects all areas of our activities, including operations, maintenance and crewing. In our Offshore, Ocean and Passenger Businesses, our subsidiary Ravenscroft has all necessary certificates and licenses, is certified under the International Safety Management, or ISM Code, and is certified by the International Organization for Standardization, or ISO, as ISO 9001:2000 certified.

**We Have an Established History and Experienced Management Team.** Our management team is led by members of the Menendez family. The family has been involved in the shipping industry since 1876. Our senior executive officers have on average 34 years of experience in the shipping industry. Our management team has significant expertise in various lines of business and has been instrumental in developing and maintaining our certified safety and quality management systems and our operational plans. Further, our management team has helped us design and develop innovative and versatile PSVs in our Offshore Supply Business.

**Preferential Treatment in Certain Markets.** Brazilian law provides a preference for the utilization of Brazilian-flagged vessels in its cabotage trade. Through one of our Brazilian subsidiaries we have the competitive advantage of being able to trade our PSVs in the Brazilian cabotage market, enabling them to obtain employment in preference to vessels without those cabotage privileges. In addition, since four of our initial six PSVs have been constructed in Brazil, we have the advantage of being able to charter our foreign flagged PSVs to our Brazilian subsidiary entitling those PSVs we charter in to the same preferential treatment received by our Brazilian-flagged vessels. We also receive preferential treatment in Chile and Argentina, where our tankers operate in a charter or ownership arrangement with our local subsidiary companies that obtain cabotage preferential treatment to operate in the territorial waters of these countries.

### Our Business Strategy

Our business strategy is to continue to operate as a diversified marine transportation company with an aim to maximize our growth and profitability while limiting our exposure to the cyclical behavior of individual sectors of the transportation industry. We plan to implement our business strategy by pursuing the following objectives.

**Capitalizing on Attractive Fundamentals in Our River Business.** We are the leading river transportation company in the Hidrovia Region, utilizing an efficient trunk system, self-operated loading and discharging terminals, our own transshipment station and owned repair facilities to maximize asset efficiency. The Hidrovia Region's agricultural footprint already represents a significant portion of the world's soybean production, and, according to DSC, its share is expected to grow. The Hidrovia Region offers a number of attractive fundamentals for the growth of our River Business. We plan to increase the size and capacity of our existing barges and invest in river infrastructure in order to take advantage of this opportunity. We may also seek to add capacity by acquiring assets or companies currently

operating in the Hidrovia Region.

**Growing Agricultural Exports.** It is estimated that during 2006, Brazil, Argentina, Paraguay and Bolivia produced approximately 107.9 million tons of soy beans, which represented approximately 47% of world production, as compared to the 86.8 million tons or approximately 38% of world production by the United States. Moreover, the region continues to have large amounts of unused arable land available for soy and other crops.

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## Business

**New Production in the Hidrovia Region.** As increasing agricultural production is expected to couple over the next few years with new mining and pig iron facility production, the resulting significant additional cargo volumes in the Hidrovia require an efficient solution to create the capacity necessary for river transport.

**Efficient Means of Transportation.** River barges provide an efficient and cost-effective transportation alternative relative to railroads and trucks. One barge can transport as much cargo as 58 trucks, making the capacity of our 30 barge tow equivalent to approximately 1,740 trucks. Notably, our 30 barge tow requires a crew of only ten. Given the efficiencies of river transportation, we believe that by building the necessary infrastructure, forest products, which are currently transported by truck and rail, offer significant growth opportunities for our River Business.

**Captive Infrastructure.** The products and goods for export in the Hidrovia Region are geographically very distant (over 1,000 miles) from ocean ports. The navigable portion of the Hidrovia Region is over 2,200 miles long and, passing through the heart of this region, is ideally situated to suit the needs of the agricultural community. Historically, lack of infrastructure to load and discharge cargo has been a limiting factor both physically and economically. Over the past several years, directly or through a joint venture, we have added a significant amount of infrastructure to the river system, such as docks, ports and terminals, over which we have a right of first use. Our proprietary infrastructure allows us to better serve our customers by loading the cargos as near as possible or discharging them directly into ocean vessels to production, thus increasing the number of barges we can efficiently load on the river and optimizing overall logistics from point of origin to destination through the use of our facilities.

We plan to capitalize on these attractive fundamentals by leveraging our leading market position and pursuing the following initiatives.

**Increasing the Cargo Carrying Capacity of Our Barges.** In an effort to maximize the utilization of our fleet of barges, we are in the process of increasing the carrying capacity of 130 of the barges in our fleet. This process involves cutting the barge length-wise, inserting a new midsection and welding the three pieces (the two original sides and the new

midsection) together. Through this process the overall capacity of each of these barges will increase by approximately 67%. Because the fixed costs of pushing a wider barge are the same as pushing the narrower barges we currently operate, we will be able to transport higher quantities of cargo at limited incremental cost.

**Replacing Diesel Oil Consuming Engines with Others that Consume Less Expensive, Heavier Fuel.** Given the differential pricing between heavy fuel and diesel fuel, significant savings can be achieved by replacing the diesel engines in our 16 line pushboats with new engines designed to consume less expensive heavier fuel oil.

**Expansion of Our Barge Construction Capability.** We intend to use a portion of the proceeds of this offering to expand the capacity of our shipyard in the Hidrovia Region to facilitate the building of new barges, enabling us to design and construct barges that are best suited for the characteristics of our River Business. Certain new mining concerns have announced plans to produce and ship through the river system, significant additional volumes of iron ore. This presents the challenge of creating significant new capacity in a cost-effective manner. We believe that having our own barge producing capability will enable us to meet this challenge at lower cost than purchasing the barges overseas and transporting them to South America.

**Expanding our Barge Business Elsewhere in Latin America.** As the largest barge operator in South America, we believe we are uniquely well-positioned to take advantage of growth opportunities elsewhere in Latin America, and are currently exploring specific opportunities in Brazil, Colombia, and Mexico. Specifically on September 8, 2006 we entered into a Memorandum of Agreement with the Argos Group (one of the leading cement producers in Colombia) to form a joint venture to establish a river transportation company on the Magdalena River in Colombia. The preliminary studies for analyzing this investment are currently underway.

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## Business

**Expanding Our Offshore Supply Business.** We have taken delivery of four modern, large, technologically advanced PSVs for our Offshore Supply Business and have four more PSVs under construction. Two of these PSVs are under construction in Brazil and are contracted to be delivered in the second quarter of 2007 and in 2008. We have recently contracted with a shipyard in India to construct two PSVs, to be delivered commencing in 2009, with an option to build two more which, if exercised would give us a fleet of ten PSVs. Currently, two of our four PSVs are operating in the North Sea, one of which has recently been chartered for two years to a major North Sea operator. Our experience in this challenging market positions us well to expand our market share as our new PSVs are delivered. Our other two PSVs are on charter to Petrobras, in Brazil that end in September 2007, and March 2008, respectively. Additionally, our next PSV to be delivered, UP Diamante, in the second quarter of 2007 is also chartered to Petrobras for a 12 month period starting May 2007. We believe there are numerous opportunities to charter modern PSVs to Petrobras and other oil, exploration and drilling companies primarily for use in Brazil. Additionally, high oil prices are causing expanded exploration activity on a worldwide basis. Currently, there are approximately 180 vessels in the Brazilian offshore market, of which, according to DSC estimates, only 82 are Brazilian flag. Forty-two percent of these vessels are in excess of 20 years of age, and we estimate that only 15 PSVs are modern and adequately equipped to service

deepwater rigs. Of these 15, according to DSC estimates, only four are large PSVs of 4,000 dwt or more. Brazil's oil reserves are the second largest in South America and over 90% of these reserves are located offshore. Petrobras has a majority of the market share in the offshore drilling market in Brazil, but recently the oil exploration and production market was opened to private and foreign participation, which we believe will allow for further growth and customer diversification.

**Growing Our Ocean Fleet with Targeted Acquisitions.** We intend to expand our ocean fleet by selectively acquiring secondhand and newly built vessels to capitalize on attractive market opportunities in which we recognize demand for the vessels, employment. For example, taking advantage of the preferential treatment that our subsidiaries have in South America, we plan on adding chemical/product carriers to our fleet to fill a demand from our existing customers for vessels to service routes where both the point of origin and destination is in South America. In addition, we are studying efficient, alternative ways of expanding our ocean fleet in the current market, in which vessels generally sell at a premium.

**Expanding our Passenger Fleet.** We intend to further expand our passenger fleet through timely and selective acquisitions of secondhand passenger vessels in accordance with identified customer needs. We are also exploring opportunities to acquire a small passenger vessel to conduct river and coastal cruises in South America. In our Passenger Business, we will focus on generating counter-seasonal trades for our vessels to operate year-round and on providing ancillary services to enhance our revenues and profitability.

**Redeploying Vessels to the Most Attractive Markets.** Due to the versatility of our vessels, we intend, under appropriate market conditions, to alter the geographic and industry focus of our operations by redeploying vessels to the most profitable markets. For example, as a result of rising demand out of China during 2003, we switched our three Suezmax OBO vessels from liquid to dry cargo carriers, and at the beginning of February 2006, when dry cargo rates in the Pacific Ocean began to fall, we switched the Princess Susana back to operating as a tanker and then back to dry cargo when the dry cargo market recovered to higher levels. We have also deployed two of our PSVs to the North Sea to take advantage of the high charter rates currently prevailing in that region. In addition, we actively manage the deployment of our fleet between longer-term time charters and shorter-term time charters. Our vessel deployment strategy is designed to provide greater cash flow stability through the use of longer-term time charters, while maintaining the flexibility to benefit from improvements in market rates by deploying the balance of our vessels on shorter term time charters.

## Our Lines of Business

### River Business

We have developed our River Business from a single river convoy comprising one pushboat and four barges in 1993 to the leading river transportation company in the Hidrovia Region today. Our River Business, which we operate through our subsidiary UABL, has 502 barges and 24 pushboats, with approximately 842,000 dwt

capacity. We currently own 458 dry barges that transport agricultural and forestry products, iron ore and other cargos, and 44 tanker barges that carry petroleum products, vegetable oils and other liquids. We believe that we have more than twice the number of barges and dwt capacity as our nearest competitor. In addition, we use one 35,000 dwt barge designed for ocean trading, the *Alianza G2*, as a transfer station to provide storage and transshipment services of cargo from river barges to ocean export vessels. The total volume of cargo shipped by UABL in 2006 was 3.6 million metric tons, 60.2% of which consisted of cargos in the soy complex, 14.1% consisted of iron ore, 12.0% consisted of petroleum products and 13.7% was other cargos.

We are in the process of expanding the size of some of our barges to increase their cargo carrying capacity and maximize our fleet utilization. We have begun a three year program to expand the size of approximately 130 of our barges. We believe that enlarging our existing barges is the most cost-effective way of growing our fleet's cargo carrying capacity. To date, we have expanded 12 barges and expect to have expanded a total of 62 by the end of 2007. We also have begun a program to replace the engines in all 16 of our line pushboats and in connection with that program have contracted to purchase six new engines from MAN Diesel with expected delivery dates in July and November of 2007. The new engines will consume heavier grades of fuel which have, from 2001 to 2006, been between 33.5% and 51.7% less expensive than the diesel fuel we currently consume.

We operate our pushboats and barges on the navigable waters of the Parana, Paraguay and Uruguay Rivers and part of the River Plate in South America, also known as the Hidrovia Region. We believe that this river system offers the most efficient means of transportation for bulk cargos through the Hidrovia Region. At over 2,200 miles in length, the Hidrovia Region is comparable to the Mississippi River in the United States and produces and exports a significant and growing amount of agricultural products. For example, Argentina, Brazil, Paraguay, and Bolivia produced, in the aggregate, 39.9 million tons of soybeans in 1995 compared to an estimated 107.9 million tons in 2006, a compound annual growth rate of 9.8%. These countries accounted for approximately 47% of world soybean production in 2006, growing from only 29% in 1995. In addition to agricultural products, companies in the Hidrovia Region are expanding and initiating the production of other goods, including forest products, iron ore, and pig iron. In order to maintain our existing fleet and expand our capacity rapidly and cost effectively we have doubled the capacity of our Shipyard in the Hidrovia Region facility effective the end of March 2007 and plan to enhance this shipyard to allow for new construction of barges and other vessels. Today's available barge fleet in the Hidrovia Region consists of approximately 1,100 dry and tank barges compared to 26,500 barges in the Mississippi River system.

Through joint ventures, we own and operate terminals at certain key locations to provide integral transportation services to our customers from origin to destination. We also own a drydock and repair facility to carry out fleet maintenance and have a long-term lease on another facility where we intend to conduct part of the barge enlargement program. We utilize night-running technology, which allows for night navigation and improves asset efficiency.

Over the next few years, as increasing agricultural production is expected to couple with production from new mining and pig iron facilities, the resulting significant additional cargo volumes in the Hidrovia require an efficient solution to create the capacity necessary for river transport.

We believe that bringing barges from the United States, which has been a major source of barges in the Hidrovia region, is no longer a sustainable economical option, given the current tightness of supply in the United States market and the high costs of transportation. Because we believe the Hidrovia region does not have facilities capable of building barges efficiently on a larger scale, we plan to expand the capacity of our shipyard and, with the assistance of experienced U.S. consultants, construct a modern shipbuilding unit capable of producing barges and other vessels in a timely and cost efficient manner.

#### Offshore Supply Business



Our Offshore Supply Business, which we operate through UP Offshore, is focused on serving companies that are involved in the complex and logistically demanding activities of deepwater oil exploration and production. We have ordered the construction of eight proprietarily designed and technologically advanced PSVs and have an option for two more. We received delivery of and placed into service two of these vessels in 2005 and two in 2006. In the fourth quarter of 2006, during which we had four PSVs in service, revenues in our offshore supply

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business exceeded running costs by \$5.8 million. We expect the two PSVs currently being constructed in Brazil to be delivered and placed into service in the second quarter of 2007 and 2008, respectively, and the two PSVs being constructed in India to be delivered commencing in 2009. If the option is exercised and the additional two vessels are built, our Offshore Supply fleet will have a total of ten PSVs. Upon delivery of the two PSVs we currently have under construction in Brazil, we intend to employ them in Brazil and other international markets. Our PSVs are designed to transport supplies, equipment, drill casings and pipes on deck, along with fuel, water, drilling fluids and bulk cement in under-deck tanks, and a variety of other supplies to drilling rigs and platforms. We employ two of these vessels in the spot market in the North Sea and employ the other two on time charter in Brazil with Petrobras. Through one of our Brazilian subsidiaries, we have the competitive advantage of being able to trade most of our PSVs in the Brazilian market with cabotage trading privileges, enabling the PSVs to obtain employment in preference to non-Brazilian flagged vessels.

The trend for offshore petroleum exploration has been to move toward deeper, larger and more complex projects, which has resulted in increased demand for more sophisticated and technologically advanced PSVs to handle the more challenging environments and greater distances. Our PSVs are equipped with dynamic positioning capabilities, most have dedicated oil recovery tanks for the performance of oil recovery duties, azimuth thrusters and greater cargo capacity and deck space than most standard PSVs, all of which provide us a competitive advantage in efficiently servicing our customers' needs.

## Ocean Business

In our Ocean Business, we own and operate eight oceangoing vessels, including one semi-integrated oceangoing tanker barge unit, under the trade name, Ultrapetrol. Our three Suezmax OBO vessels transport liquid cargo, such as petroleum and petroleum products, as well as dry cargo, such as iron ore and coal, on major routes around the globe. Our Aframax tanker carries both crude oil and a variety of refined petroleum products internationally. Our product tankers are employed primarily in South American cabotage. Our semi-integrated tug barge Alianza G-3/Alianza Campana operates under long-term charter as a support vessel in North Brazil up to February 2007 and, after a period of dry dock and refurbishment, will continue to provide service in South America. Our current ocean fleet has an aggregate cargo carrying capacity in excess of 651,000 dwt and an average age of approximately 15.5 years.

We presently employ our Suezmax OBO vessels in the carriage of dry bulk cargos on trade routes around the world, mostly transporting coal and iron ore from South America, Australia and South Africa to Europe, China and other Far East countries. During 2006, we derived over 69% of our Ocean Business revenues from charterers in Europe and Asia, some of which were SwissMarine and Pan Ocean Shipping. Over the same period, we derived 75% of our Ocean Business revenues from time charters with at least three months duration and 25% from spot voyages.

Our Aframax tanker, Princess Marina, has been employed for the last four years under successive charters in Chile with ENAP, which now have been extended until August 2007.

We currently employ Miranda I, our chemical/product carrier, on a three-year charter with an option for an additional two years to Petrobras, a major oil company serving the regional trade of Argentina and Brazil, through September 2008. In November 2006, we entered into a Memorandum of Agreement to purchase the Alejandrina, a 9,210 dwt product tanker which we will employ in the cabotage trade in South America. Similarly, in October 2006, we entered into a contract to purchase the Amadeo, a 39,350 dwt Handysize crude and product tanker which will also be employed in the cabotage trade in Argentina, Brazil and Chile.

Our Miranda I and Amadeo, originally built as single hull, are in the process of being converted to double hull in Argentina and Romania, respectively, and we expect both conversions to be completed in the second quarter of 2007. Our vessels Princess Nadia and Princess Susana have been, as of the end of 2006, certified by Class as double hull vessels. All of our remaining ocean ships are double hull with the exception of Princess Katherine which, although generally of double hull design, needs reconfiguration of some service tanks to comply with double hull requirements. This vessel is currently employed in dry cargo, and we are planning to reconfigure her if/when she returns to tanker trade.

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## Business

### Passenger Business

In our Passenger Business, we own and operate two vessels that we purchased in 2005, the New Flamenco, with a 1,010 person capacity and 401 cabins, and the Grand Victoria (which we have renamed the Blue Monarch for her 2007 employment), with a 575 person capacity and 242 cabins. In February 2006, we completed an extensive refurbishment of the New Flamenco, including all passenger areas, and we conducted work to recertify the Grand Victoria and upgraded some of her passenger areas. We employ the New Flamenco under a seasonal charter with a European tour operator cruising the Mediterranean Sea.

The remainder of the charter for the New Flamenco is a one-year, "full-service charter," extendable for an additional year at the charterer's option, pursuant to which we are responsible for operating and maintaining the vessel, paying the full vessel's staff and providing passenger services such as entertainment and food and beverages, while our charterer is responsible for marketing and ticket sales as well as fuel and port charges. Pursuant to the charter, our charterer pays us an agreed amount per passenger, per day, which escalates each year, and is subject to a guaranteed minimum occupancy equivalent to an average of approximately 80% of the lower berth capacity. We also receive the revenues, as applicable, from on board sales of goods and services, a portion of which are shared with the charterer or concessionaire.

In the current employment for the Blue Monarch, on 7-day cruises in the Aegean Sea, we market the ship through Monarch Classic Cruises. Under this arrangement, we own one third of Monarch Classic Cruises, but we have no guaranteed minimum income.

The structure of our seasonal contracts for our Passenger Business provides us with a stable revenue stream as well as the flexibility to operate the vessels in other regions of the world at the end of the seasonal contract term. We have operated one of our vessels during periods outside the European travel season for certain events.

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## Business

## Ultrapetrol Fleet Summary

River Fleet	Number of Vessels	Capacity	Description
Alianza G2/Alianza Rosario	1	35,000 tons	Transfer Station
Pushboat Fleet	24	77,752 hp	Various Sizes and Horse Power
Tank Barges	44	95,578 m <sup>3</sup>	Carry Liquid Cargo (Petroleum Products, Veg. Oil)
Dry Barges	458	732,700 tons	Carry Dry Cargo (Soy, Iron Ore)
Total	527	N/A	

Offshore Supply Fleet	Year Built	Capacity (DWT)	Delivery Date
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In Operation

UP Esmeralda	2005	4,200	2005
UP Safira	2005	4,200	2005
UP Agua-Marinha	2006	4,200	2006
UP Topazio	2006	4,200	2006

On Order

UP Diamante	2007	4,200	
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